

THE ROLE OF PROPERTY DEVELOPERS IN THE PROVISION OF  
OWNER-OCCUPIED HOUSING IN HONG KONG



by

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## ABSTRACT

Ever since the post-war years, home ownership in Hong Kong has been considered to be a desirable form of tenure. The ever-spiralling housing prices and the minimum government intervention in private housing market induce people to regard residential real estate as an important investment good. But, since the early 1990s, sky-rocketing prices have become public concern. Property developers' business behaviour and pricing strategies in the housing market are often claimed to be responsible for pushing up the prices. This dissertation employs Ball's 'Structure of housing provision' concept to analyse the role of property developers in the provision of owner-occupied housing in Hong Kong.

The study reveals that owner-occupied housing provision in Hong Kong is characterised by a relatively high level of market concentration. This concentration is the aggregate result of government intervention in land supply and planning control in housing development process. The limited supply of residential land, particularly in urban areas, has induced developers to acquire land from private lots for re-development. Yet, the intricate and time-consuming lease modification procedures have favoured large developers, who have expertise and financial backing, to pursue large scale residential development projects. As a result, the government intervention in housing provision shapes the production regime under which developers operate. This, in turn, fashions the size, location and style of housing developments, and consequently the structure of owner-occupied housing provision in Hong Kong.

On the other hand, large developers in Hong Kong are more than a group of housing producers; they occupy prominent positions in Hong Kong's and China's political arenas. Using Tseung Kwan O as a case study to examine developers' pricing strategies, it failed to demonstrate that developers have 'power' to determine housing prices. Yet, developers, by establishing network 'internal' and 'external' to Hong Kong society, are able to exert immense influence in the decision-making process of Hong Kong.

However, the changing economic and political environments of Hong Kong after July 1997 have transformed the structure of owner-occupied housing provision. The increased government intervention in direct provision of owner-occupied housing at the bottom-end of residential market has pushed private developers to shift their production in the upper-end market. As a whole, private developers will continuously play a key role in the owner-occupied housing provision in Hong Kong, but their operations will change as new rules, resources and ideologies will be created to adjust the changing investment atmosphere in Hong Kong housing market.

## 摘要

從戰後開始，自置居所已成為令人渴望的一種房屋保障。永遠不斷上升的房屋價格及在私人房屋市場上，政府的低程度干預令市民對房地產視為一種重要的投資產品。但是，從一九九零年代初期，猛升的價格變成了市民的憂慮。地產發展商的商業行為及定價的策略，往往被視為推高價格的原因。這篇論文使用 Ball's 的『房屋供應的結構』‘Structure of housing provision’ 概念，來分析地產發展商在香港自置房屋供應結構內之角色。

研究顯示香港自置房屋供應的特點是相當高程度的市場集中。這集中的情況，是由於政府在房屋開發過程上的土地供應及規劃控制上之干預的結果。有限的住宅用地供應，特別是在都市區內的，促使發展商從私人獲得地皮來重建。可是，複雜及費時的租約修改程序，對擁有專門知識及技術和財政支持的大地產發展商，有利於從事大型住宅發展計劃。因此，政府在房屋供應的干預形成了現今發展商的建造房屋之制度。另外，它做成了今天香港房屋發展的規模、位置及格調和自置房屋供應的結構。

另一方面，香港地產發展商不單是一郡房屋生產者；他們在香港及中國的政治舞台上扮演著顯著的角色。在將軍澳調查發展商的定價策略之個案中，不足以顯示地產商享有決定房屋價格的『能力』。但是，地產商藉著在香港社會內建立『內部的』及『外部的』網絡，有能力在香港政策的決定過程中發揮極大的影響力。

然而，在一九九七年七月以後，香港的經濟及政治環境的變化，已經改變了自置房屋供應的結構。政府逐漸地直接參與供應住宅市場內低檔的自置房屋居所，迫使地產商轉移他們的生產力，集中在市場內高檔的房屋。總括來說，私人地產商仍然繼續在香港自置房屋供應結構內扮演重要的角色。但是，他們的運作會因已產生了新的規則、資源及意識形態改變，來適應香港房屋市場轉變的投資氣氛。



## TABLE OF CONTENTS

	<u>Page</u>
ABSTRACT	ii
TABLE OF CONTENTS	iv
LIST OF FIGURES	vi
LIST OF TABLES	vii
ABBREVIATIONS	viii
ACKNOWLEDGEMENTS	ix
 CHAPTER 1	
INTRODUCTION	1
 CHAPTER 2	
HOUSING MARKET AND HOME OWNERSHIP	6
The Hong Kong residential housing market	7
Growth of home ownership	23
Conclusion	38
 CHAPTER 3	
STUDYING HOUSING PROVISION	40
Neo-classical economics	41
Classical Marxism	43
Urban political economy	46
Beyond Marxian political economy	56
Structures of housing provision	58
Conclusion	63
 CHAPTER 4	
HONG KONG PROPERTY DEVELOPERS	64
Roles of property developers	64
Types of property developers	66
The research agenda	68
Historical development of Hong Kong property developers	70
British-controlled property companies	79
Chinese-controlled property companies	81
Overseas-controlled property companies	91
Public-sector developers	93
Other public companies	96
Conclusion	100

CHAPTER 5	THE OWNER-OCCUPIED HOUSING PROVISION IN HONG KONG	102
	Forms of housing production	103
	The housing development process in Hong Kong	107
	Land search and assembly	108
	Planning permission, development design and finance	128
	Housing construction	137
	Marketing and selling	142
	Conclusion	148
CHAPTER 6	PROPERTY DEVELOPERS AND THEIR POWER	149
	Developers' market power	149
	Developers' political power	175
	Conclusion	186
CHAPTER 7	HONG KONG OWNER-OCCUPIED HOUSING AND THEIR FUTURE	188
	Expand owner-occupied housing sector	189
	Strategies to promote home ownership	198
	The future structure of owner-occupied housing provision in Hong Kong	204
	Future prospects of home ownership	209
	Conclusion	214
CHAPTER 8	CONCLUSION	216
POSTSCRIPT		220
APPENDICES		
I.	List of individuals consulted in selected individuals interviews.	221
II.	Corporate members in the Real Estate Developers Association of Hong Kong as in 1997.	223
III.	Details of HOS and PSPS projects, 1978-97.	229
BIBLIOGRAPHY		235

## LIST OF FIGURES

Figure		Page
2.1	The average growth of GDP in Hong Kong, 1982-97.	14
2.2	Trend of housing tenure in Hong Kong, 1971-96.	24
3.1	Harvey's capital switching model of the primary, secondary and tertiary circuits of capital.	48
3.2	The structure of owner-occupied housing provision in Britain.	59
4.1	The role of property developers in the property development process.	65
4.2	Cheung Kong's profit attributable to shareholders ended on 31 August, 1975-95.	82
4.3	Cheung Kong's turnover of sales of properties, 1988-95.	84
4.4	Net cost of Henderson's holding of Land Exchange Entitlements, 1981-86.	86
4.5	Distribution of major developers' land banks, March 1995.	87
4.6	Major developers' land bank breakdown by location, March 1995.	88
5.1	Forms of housing production.	104
5.2	Housing development process in Hong Kong.	108
5.3	Net assets of Land Fund, 1986-97.	112
5.4	Total area of residential land disposed by the Sino-British Land Commission, 1985-97.	113
5.5	Planning hierarchy in Hong Kong.	130
5.6	Distribution of new private residential units by different classes, 1979 and 1995.	135
6.1	Supply of private domestic units and price indices (all classes), 1981-97.	152
6.2	Percentage of new residential units over total number of households, 1976-97.	153
6.3	Tseung Kwan O: division of districts.	162
6.4	Tseung Kwan O Phase I area: locations of public and private housing estates as at 31 March 1998.	165
7.1	Structures of owner-occupied housing provision in Hong Kong before and after 1998.	206
7.2	Owner-occupied housing stock projection, 1986-2003.	207



## LIST OF TABLES

Table	Page
2.1 The growth of Gross Domestic Product (GDP) in selected countries, 1970-95.	11
2.2 The percentage of owner-occupation in selected countries.	25
2.3 Domestic saving rates of selected Asian economies.	29
2.4 The percentage distribution of domestic households by monthly household income, 1971, 1976 and 1981.	35
2.5 Percentage distribution of population by age, 1961-96.	36
4.1 Top ten listed property companies and their market capitalisation.	71
4.2 Examples of large scale private residential estates in Hong Kong, 1966-85.	78
4.3 Number of HOS and PSPS flats, 1978-97.	94
4.4 Owner-occupied housing production by HKHS, 1985-98.	95
4.5 Owner-occupied housing production by LDC, 1994-96.	97
4.6 List of MTRC property co-development projects, 1976-90.	98
4.7 List of KCRC property co-development projects, 1983-98.	99
4.8 Developmental phases of Hong Kong property developers.	100
5.1 Revenues from land transaction, 1974-90.	111
5.2 Area of government land sold at public auction, 1978-96.	113
5.3 Large scale re-development projects in Hong Kong.	119
5.4 Average size of private residential units completed in the period of 1992-96.	135
5.5 Samples of incentives offered by large developers in the early 1998.	143
6.1 Business concentration of the largest ten enterprises in 1994 and 1995.	150
6.2 Tseung Kwan O: number of dwelling units by types of living quarters, 1991 and 1996.	163
6.3 Tseung Kwan O: existing housing estates provided by HKHA as at 31 March 1998.	164
6.4 Tseung Kwan O: existing owner-occupied housing provided by HKHS as at 31 March 1998.	164
6.5 Tseung Kwan O: private housing developments as at 31 March 1998.	166
6.6 Price movements of Metro City (Phase I), Tseung Kwan O.	167
6.7 Price movements of East Point City, Tseung Kwan O.	168
6.8 Cross-directorships among Hong Kong major developers in 1995.	172
7.1 The HKSAR's second land disposal programme, 1 April 1998 to 31 March 2003.	190
7.2 Owner-occupied housing stock projection, 1986-2003.	207
7.3 Wage indices (September 1992 = 100) and average wage rates by broad occupation group.	210
7.4 The distribution of lower-, middle- and higher-income households in Hong Kong, 1981-96.	211

## ABBREVIATIONS

Main abbreviations used in this dissertation are listed below:

CITIC	China International Trust and Investment Ltd.
COLI	China Overseas Land and Investment Ltd.
FFSS	Flat-For-Sale Scheme
GDP	Gross Domestic Product
HKHA	Hong Kong Housing Authority
HKHS	Hong Kong Housing Society
HKMA	Hong Kong Monetary Authority
HKMC	Hong Kong Mortgage Corporation Ltd.
HKSAR	Hong Kong Special Administrative Region
HKSBC	Hong Kong and Shanghai Banking Corporation
HOS	Home Ownership Scheme
HOUSCOM	Steering Committee on Land Supply for Housing
HPLS	Home Loan Purchase Scheme
HSLs	Home Starter Loan Scheme
KCRC	Kowloon and Canton Railway Corporation
LDC	Land Development Corporation
LEE	Land Exchange Entitlement
LRT	Light Railway Transit
LTHS	Long Term Housing Strategy
MIHS	Middle-income Housing Scheme
MTR	Mass Transit Railway
MTRC	Mass Transit Railway Corporation
OZP	Outline Zoning Plan
PRH	Public Rental Housing
PSPS	Private Sector Participation Scheme
SCHS	Sandwich Class Housing Scheme
SHP	Structures of Housing Provision
TDS	Territorial Development Strategy
TPB	Town Planning Board
TPS	Tenant Purchase Scheme
UIS	Urban Improvement Scheme

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# CHAPTER ONE

## INTRODUCTION

Housing has a prominent place in current Hong Kong's political arena. In his first policy address on 1 July 1997, the Chief Executive Tung Chee-hwa announced his plan to increase the supply of new housing: an annual production of 85,000 new flats in the ten-year period from 1997/98 to 2006/07. However, the real issue is not one of many people without roofs over their heads as was the case in the 1950s and 1960s. This is well documented in the Planning, Environment and Lands Branch's (1994) Report that states,

The 1993 year-end population was estimated to be 6.02 million and the number of households 1.71 million. With a total stock of about 1.8 million public and private permanent housing units, which is 5% more than the estimated number of households, **there should be no shortage of housing for the purpose of shelter.** The notional surplus is accounted for by the existence of vacancies, second homes, smaller households, and a growing tendency for emigrants to retain their properties in Hong Kong. (p.3, emphasis added)

Indeed, since the early 1990s, escalating housing prices have been Hong Kong people's top concern. The ridiculously high level of residential property prices has pushed home ownership beyond the reach of many aspiring households. For example, prices for all classes of private domestic properties rose an average of 150 per cent between year-end of 1989 and 1993. Prices in respect of the more popular estate-type developments increased by more than 200 per cent (ibid., p.2). In November 1996, the average price for recorded transactions in the housing market was \$4,534 per square foot (Lui, F.T. 1997, p.360). This means that a family purchasing a unit of 380 square feet had to spend more than half a million dollars for the down payment. If the family planned to repay the mortgage loan in 20 years at an interest rate of nine per cent, it would have to pay more than \$12,000

a month. In February 1996 the median household monthly income was \$17,500 (Census & Statistics Department 1997b). In other words, for a family whose earnings were at the median, more than 70 per cent of its household income would have to be spent on monthly mortgage payments if it decided to purchase a small flat. Thus, the high prices and prospects for further rises provoke a lot of controversy in the society.

Public dissatisfaction with rising property prices has prompted the Government to introduce measures to curtail price increases. In response, since 1991, the government has intervened in the pre-sale market for new housing units and the home mortgage loan market in order to suppress demand. The series of measures adopted are targetted at speculators and developers who are often believed by the public to be responsible for pushing up the prices.

The commonly held view<sup>1</sup> that developers in Hong Kong have sufficient monopoly power to manipulate the residential housing market has had a long history, and has recently been intensified by the report published by the Consumer Council in July 1996. The report stated that 70 per cent of total new private housing was supplied by seven developers in the period from 1991 to 1994. Although the report did not conclude that there was monopoly or even oligopoly, it asserted that there was a high degree of concentration in the market. This allegation has raised a number of questions about the business behaviour and pricing policies of property developers. There is a suspicion that these practices harm consumers and should therefore be regulated or prohibited.

Within this context, the primary aim of this study is to examine the factors that contribute to the high concentration in the residential housing market. The study involves a detailed comparison among various types of developers in the provision of owner-occupied housing. The study also attempts to assess the

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<sup>1</sup> As this dissertation is to investigate the role of property developers in Hong Kong's owner-occupied housing, for the role of speculators, see Wong, Chau and Lai (1996, p.127-134) and Lui, F.T. (1997, p.360-362).



present problem of the high housing prices and prospect of the growth of home ownership in Hong Kong.

In so doing, this study addresses the following questions:

- (a) How property developers operate in the residential housing market?
- (b) What are the major problems in building residential units and how can they be overcome?
- (c) What are the relationships between the Government, financial institutions and major property developers in the economy?
- (d) What obstacles exist to the future expansion of home ownership in Hong Kong?

The dissertation is organised along the following lines.

Chapter 2 describes the performance of post-war residential housing market in Hong Kong. The brief historical outline indicates that Hong Kong housing market is characterised by its dramatic booms and busts. In fact, prices are always spiralling upwards. Such performance can be explained by the uniqueness of Hong Kong housing market — the high property yield, the minimum government intervention, and the simple legal, taxation and financial systems.

The second half of the chapter outlines the growth of home ownership in Hong Kong. It illustrates what are the causes of the increasing home ownership rate. In comparison with other advanced capitalist countries, the Hong Kong government's policy on home ownership is restricted to providing assistance to a limited range of middle- and low-middle-income families. The main impetus of the growth of home ownership, however, is the high housing prices that increase the growing demand of housing as an investment goods.

Chapter 3 reviews existing approaches to, and research on, housing provision. It argues that while these approaches — neo-classical economics, classical Marxism, and urban political economics — provide useful directions for

understanding the housing production, they lack the capacity to address a fundamental dimension of our understanding of how housing, particularly owner-occupied housing, is provided, and why it has become as it is. As an alternative, an approach beyond Marxian political economy is introduced. This approach combines an understanding of structure and agency, focusing on resources, rules and ideology that actors acknowledge and deploy to realise specific investments in housing development. The chapter concludes that the 'Structures of Housing Provision' concept can help to provide a theoretical framework in which a number of empirical studies, focusing on structure, agents and institutions operating in the housing provision, are undertaken.

The first half of Chapter 4 defines the role of property developers in the structure of housing provision, and examines the common types of developers operating within it. It then describes how Hong Kong property developers can be studied. Given that most of developers were inaccessible, the main sources of information were from secondary data published in annual reports of the property companies, articles in books, journals and newspapers, and unpublished dissertations in universities. Also, interviews with selected individuals who are familiar with Hong Kong's housing market were conducted, and they were used to supplement the secondary data. In the second half of the chapter, various categories of Hong Kong property developers are examined. It shows that the economic and political changes in the territory have created a dramatic shift towards large Chinese producers over the last 15 years. At the same time, the types of owner-occupied housing provided are becoming more sophisticated in scale, style and quality.

Chapter 5 explains the housing development process in Hong Kong. The process starts from land acquisition, planning permission, development designs, financial arrangement, housing construction, and marketing and selling. Throughout the process, the Government has implemented policies to monitor and regulate every stage. In fact, the ways Government intervened affect the structure of owner-occupied housing provision and in turn, the developers' operating



strategies in producing the housing. The outcome is the high concentration of large developers in Hong Kong's structure of owner-occupied housing provision.

The first half of Chapter 6 outlines the level of developers' market power in Hong Kong housing market. It assesses the degree of developers' ability to influence housing prices. It then describes how developers changed their pricing strategies at different points of time in selling new units in Tseung Kwan O. The empirical findings cast doubt on developers' power in setting prices. In the second half of the chapter, the level of developers' political power in Hong Kong society is examined. It shows how developers form network relationships 'inside' and 'outside' Hong Kong to sustain a high degree of influence in economic and political decision-making processes in Hong Kong.

Chapter 7 examines various strategies proposed by the government of Hong Kong Special Administrative Region to further expand home ownership in the community. This is followed by a discussion of the possible effect on the structure of owner-occupied housing provision in Hong Kong. The high concentration of large developers in current structure will continue, but its content will change. The owner-occupied sector will be further demarcated: the Hong Kong Housing Authority dominates at the lower-end while major private developers at the upper-end of the housing market. The latter section identifies some of the obstacles to promote home ownership in Hong Kong. The chapter concludes with an examination of implications to Hong Kong economy under the new housing policies.

Chapter 8 is the conclusion of the dissertation. It highlights the continuum of housing policies in responding to changes of external and internal contexts of the structure of housing provision in Hong Kong. The evolution of the structure in turn induces transformation of rules, resources and ideologies each agent will be employed within the structure. Finally, the chapter suggests topics for further research in coping with the continuous changes of this structure.

## CHAPTER TWO

### HOUSING MARKET AND HOME OWNERSHIP

Ever since the post-war years, residential real estate has become an increasingly popular and important investment in Hong Kong. The strong economic performance and the island nature of Hong Kong mean the price of land is forever rising. In fiscal 1978 expenditure on building and construction, which amounted to \$8,539 million, accounted for 13.4 per cent of Gross Domestic Product (GDP)<sup>1</sup>, with over half of the total generated in the private sector (Tse, C.C. 1979, p.9). In the period 1980-87, an average of 68 per cent of investment expenditure was in the form of property (Walker 1990, p.29). This trend has gained further momentum in recent years with the GDP contribution rate of the real estate business reaching 43 per cent in 1994 (Maruya 1998, p.3). However, residential property market in Hong Kong, like elsewhere, is characterised by significant boom and bust cycles. In fact, one of the key features of property and construction cycles in Hong Kong is their high volatility. Even the unexpected shift in political and economic fortunes has often created strong demand and good appreciation.

This chapter gives a brief review of Hong Kong residential housing market in the context of the social and economic changes that Hong Kong has experienced in the course of rapid economic development and restructuring since the 1970s. It also examines the differences in its characteristics and performances with other countries. Lastly, it describes the growth of home ownership in Hong Kong and its causes in relation to the high housing prices and government intervention.

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<sup>1</sup> United Nations (1997, Table D) define GDP in purchaser's values is the total of the gross expenditures on the final uses of the domestic supply of goods and services valued at purchaser's values less imports of goods and services valued compared, or the sum of the compensation of employees, consumption of fixed capital, operating surplus and indirect taxes, net of residents producers and import duties.



## **The Hong Kong residential housing market**

### *The booms and slumps*

From the end of the Second World War in 1945 to the reversion of Hong Kong to China in July 1997, Hong Kong has experienced eight property cycles, namely 1945-51, 1952-58, 1959-68, 1969-74, 1975-84, 1985-89, 1990-95, 1996-present. The average duration of the cycle was eight to nine years, ranging from the shortest six to seven, to the longest nine to ten years (Yang 1993, p.360).

#### **(a) 1945-51**

With the return to peace in 1945, Hong Kong was faced with severe housing depletion. A survey carried out in 1946 showed that almost 8,700 domestic units had been destroyed and some 10,300 damaged (Pryor 1983, p.23). At the same time, refugees and former residents flooded into Hong Kong, so that the local population increased from about 0.6 to 2.1 million people between 1945 and 1951. As a result, huge squatter settlements sprang up virtually overnight.

To solve the housing shortage problem, the major government action was to impose rent control on pre-war housing in 1947. Under the Landlord and Tenant Ordinance, rent on these units could not be raised unless a tenant vacated his/her premises. For the provision of new housing, the responsibility was entirely left to private enterprise. The land price at that time was cheap, but the world-wide shortage of building materials raised the construction cost so high that most private developers could not meet. Furthermore, the imposition of rent control severely limited the incentive for private developers to undertake housing re-construction. So, although the economy grew rapidly after Hong Kong resumed its entrepot role, the housing market was weak.

In 1951, Hong Kong economy was in crisis. Due to the intervention of China in the Korean War, the United Nations imposed an embargo on trade with the mainland. This action marked the end of Hong Kong's entrepot trade. As a

consequence, the property market experienced the first slump since the post-war years.

#### (b) 1952-58

Fortunately, among the refugees arriving in Hong Kong were industrial capitalists from Shanghai. This group of migrants not only brought their fortunes with them, but also some time prior to the establishment of the People's Republic of China in 1949 had been diverting new capital equipment — specially textile machinery — away from Shanghai to safekeeping in Hong Kong (Wong, S.L. 1988). Thus at the beginning of the 1950s, refugee capital using a large pool of cheap labour began the Hong Kong's industrial revolution. By the end of the 1950s, domestically produced exports, particularly textiles and apparel, had surpassed re-exports, making Hong Kong the first of the 'Four Little Dragons' (the newly industrialised economies) to enter export game.

However, the supply of new housing remained stagnant until the disastrous squatter fire at Shek Kip Mei on Christmas Eve 1953. The great fire made 53,000 persons homeless that triggered the Government's direct intervention in the provision of housing<sup>2</sup>. The housing situation was further improved after the amendment of the Landlord and Tenant Ordinance on 17 August 1955. The conditions to evict tenants for urban re-development were relaxed. Later, on 21 December 1955, the Building Ordinance of 1935 was amended to permit construction of taller buildings. These two amendments led to a surge of re-development that reached a peak in 1959, when some 12,000 private housing units were built (Pryor 1983, p.26). As a result, the sudden increase of supply within such a narrow span of time pushed down the property price, and caused the second slump of the housing market until 1961.

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<sup>2</sup> There are a lot of debates about the reasons why Hong Kong government started to build public housing blocks in 1954. Most critics appear to have reached the consensus that the impetus for direct provision of housing lay largely in the financial burden imposed upon the Government in the provision of relief to the victims of the squatter fire. The Government apparently found that in the long run the costs of resettling these homeless squatters permanently were lower than the costs of relief (Hopkins 1971, p.296).



### (c) 1959-68

The rapid surge of building activities in late 1950s resulted in serious urban congestion. To help obviate the problem, new regulations were introduced in September 1962 to scale down the permitted density of development. A plot-ratio<sup>3</sup> amendment was enacted to take effect in 1966, restricting the ratio of gross floor space to the area of the site. However, the amendment included an escape clause that allowed any landlord who could apply for re-construction with a plan before the end of 1965 was exempted from these new restrictions. Thus, during the 'period of grace' between 1962 and 1966, intense re-development occurred in the context of the 1956 regulations. Over the period 1963-66, for example, 93,570 new private domestic units were built, representing an average annual production of 23,390 units as against about 10,000 units per annum over the period 1958-62 (Pryor 1978, p.270). As a consequence, by 1966, there were 18,000 vacant domestic units in the private sector. The housing market became once again vastly over-supplied.

Furthermore, the first banking crisis since the post-war years was occurred in February 1965. A series of bank runs caused a retraction of investment in private housing. This economic setback was closely followed by the Star Ferry riots of 1966 and the civil disturbances, which were lasting from May 1967 to January 1968, caused by a spill-over of the Cultural Revolution (1966-76) from China. Thus, starting from 1965, the housing boom collapsed into a deep depression that lasted until 1970.

### (d) 1969-74

Hong Kong returned its social order by 1969, and its economy was again on the upward swing. In 1971, Sir Murray MacLehose was appointed the Governor of Hong Kong. In his first speech to the Legislative Council in October 1972, MacLehose devoted 80 per cent of his speech to social policy, with particular

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<sup>3</sup> The plot ratio of a building is obtained by dividing the gross floor area of the building by the area of the site on which the building is erected.

emphasis on housing. His Ten Year Public Housing Program<sup>4</sup> signified the first decisive element in the performance and orientation of housing policy in Hong Kong<sup>5</sup> (Castells, Goh & Kwok 1990, p.136).

However, the supply of residential and non-industrial lands fell to a very low level in the several years following the banking crisis. The supply did not resume the 1965 level until 1970 (Wu 1983, p.15). The acutely short supply no doubt contributed to the subsequent recovery of the property market at the end of 1968 through slowing the supply of housing. The recovery continued until the stock market crash in March 1973. The Hang Seng Index of share prices fell from 1,700 in March to 150 in December 1974. Also, the oil crisis in 1974 and then the deepest post-war world recession further pushed the market into a severe trough. It was estimated that the land price dropped by 90 per cent (Hsieh 1992, p.247).

#### (e) 1975-84

Despite most of the industrialised world verging on stagnation in early 1970s, Hong Kong still managed a high rate of growth. Manufacturing industries underwent product diversification and up-stream production. As a result, the sector saw a flourishing of garments, plastics, electronics, and the toy industries. At the same time, Hong Kong became a major world financial centre. Table 2.1 shows that the growth of GDP averaged at 7.7 per cent in the period of 1970-75. Under such strong economic growth, the property market began to pick up in late 1976. The construction of the mass transit railway line and its adjacent residential developments and the implementation of the Ten Year Public Housing Program boosted up the building and construction activities.

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<sup>4</sup> The Ten Year Public Housing Program aimed to accommodate 1.8 million people in public housing at a minimum standard of 3.3 sq m per person in the 10-year period of 1973-82.

<sup>5</sup> Castells, *et al.* (1990, p.140) claimed that such reform was a deliberate move to pacify and stabilise the colony after 1967 riots. Also, the reform could create a solid basis for negotiating with China by building up local political legitimacy on the basis of social programs and limited democratisation.



**Table 2.1** The growth of Gross Domestic Product (GDP) in selected countries, 1970-95.

Countries	Annual growth rate of GDP (%)			
	1970-75	1976-81	1980-90	1990-95
Hong Kong	7.7	12.0	6.9	5.6
Denmark	2.2	2.1	2.4	2.0
USA	2.8	3.1	3.0	2.6
Belgium	4.1	2.3	1.9	1.1
Japan	5.0	5.0	4.0	1.0
Singapore	9.8	9.0	6.4	8.7
South Korea	9.8	7.2	9.4	7.2
Taiwan	5.3(a)	-	6.3(b)	-

Notes: (a) 1961-73

(b) 1974-87

Sources: 1. All countries except Taiwan, 1970-75 and 1976-81: United Nations (1982) p.148-153.

2. All countries except Taiwan, 1980-90 and 1990-95: World Bank (1997) Table 11.

3. Taiwan: Amsden (1992) Table 2.1.

But, the most significant impetus to the property market was the launching in 1978 of 'four modernisations' by the People's Republic of China. China's open door policy revived the entrepot trade with China, and enhanced the confidence of investors and end-users. Low interest rates and the willingness of the banks to provide mortgage finance to developers and the home-buyers<sup>6</sup> hastened the euphoric prices rises, especially the small domestic units. The price of small residential premises had trebled from \$3,200 per square metre in 1978 to over \$10,000 in 1981 (Wong, W.Y. 1994, p.8). This upward momentum was greatly attributed to the tempo of demand of the prospective home purchasers and particularly the speculators<sup>7</sup>. The rampant speculative buying pushed the mass residential prices up the peak to \$11,383 per square metre in 1981 (Rating & Valuation Department 1982). The vacancy rate at that time was 5.9 per cent (or

<sup>6</sup> For example, in the 2 years 1979 and 1980, banks and deposit-taking companies lent an additional \$12,000 million to developers and \$6,000 million for private residential mortgages and thus increased their commitment to the property sector by roughly 150% (HKSBC 1981).

<sup>7</sup> The speculative appeal of dealing in properties has been greatly facilitated by the practice of forward sales of flats in the course of development. For a speculator, he/she pays only a small down payment, and sell his/her entitlement at a substantial profit. As a result, he/she is rewarded with the appreciation of the full value of the premises in which he/she invests only a fraction of the equity.

29,700 units) indicating that the residential property market was dominated by hoarders and speculators.

The price of residential property started to fall from the third quarter of 1981, as mortgage rate escalated from 6.5 per cent in early 1978 to 21 per cent in October 1981. The rapid rise in the interest rate and housing price eroded the purchasing power of home buyers. High interest charges also imposed a heavy financial burden to speculators who were forced to sell their units in the secondary market.

Later, the visit of Mrs Margaret Thatcher to Beijing in October 1982 brought the Sino-British stalemate over the Hong Kong future to the surface. The diplomatic negotiations that followed shortly between China and Britain on the Hong Kong question immediately touched off a confidence crisis, as evidenced by emigration and 'currency substitution' (i.e., extensive switching from local to foreign currency deposits) on a massive scale. The price of mass residential premises dropped by 36 per cent in 1982.

Furthermore, starting from September 1982, Hong Kong experienced the worst economic crisis in its history. The collapse of property market brought two large property firms, Eda Investment Co., Ltd. and the Carrion Holdings Ltd., into financial difficulties that in turn brought several financial institutions on the brink of insolvency. By early 1983, seven licensed deposit-taking companies failed<sup>8</sup>. The banking crisis was exacerbated on 'Black Saturday', 24 September 1983, when the Hong Kong dollar plunged to a record low of US \$1 = HK \$9.6. As a result, the Hong Kong government suffered three consecutive years of fiscal deficit. Thus, Hong Kong in the autumn of 1983 was simultaneously hit by three crises: currency crisis, banking crisis, and fiscal crisis.

On 15 October 1983, the Government announced a two-point currency stabilisation scheme, including the linked-exchange rate system that fixed the rate

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<sup>8</sup> For details of the banking crisis in 1982-86, see Jao (1988).



of US \$1 = HK \$7.8. The Hong Kong economy became stabilised. However, it was still caught up with the world-wide economic recession and the confidence crisis. The overall residential price index dropped further 20 per cent from 1982 to 1984 (Wong, W.Y. 1994, p.11).

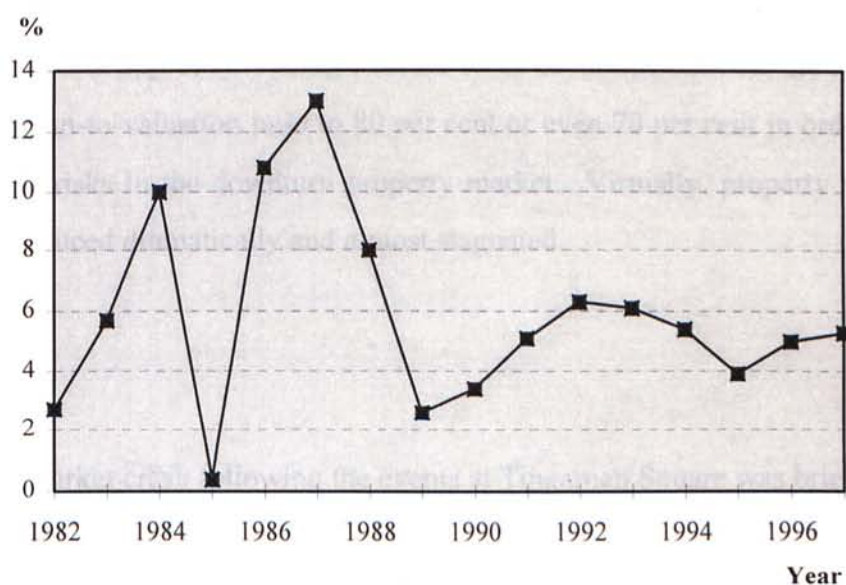
(f) 1985-89

After the promulgation of Sino-British Joint Declaration in September 1984, the anxiety about Hong Kong's future was dissipated. The property market then recovered in 1985. The full recovery was attributed to the fall of mortgage rate, from 12.5 per cent in 1984 to 8 per cent in mid-1985. This reduction spurred an increase of demand for residential premises and the housing mortgage loans. Furthermore, some of the banks offered more favourable terms for borrowers, such as lengthening the repayment period up to 25 years, and reduced the loan-to-valuation ratio from 90 per cent to 80 per cent in late 1985. Thus, the growth rate of total mortgage loans kept pace with the buoyancy of housing price. Lending to the residential property rose by 24 per cent from 1984 to 1985.

Approximately after 1985, there was massive re-location of labour intensive manufacturing production processes to lower cost countries, such as China and Thailand. Hong Kong gradually shifted from a manufacturing base to an international financial centre. The high economic growth, an over ten per cent growth in per capita GDP in 1986-87 (Fig. 2.1), attracted an influx of international funds, particularly those from Japan. To the Japanese investor, Hong Kong offered a host of attractions because local properties were relatively cheap in yen terms, and offered higher yields than could be achieved in Japan. Also, there has also been active foreign investment activities from countries in Southeast Asia, mainly by the overseas Chinese there, as well as from Australia and New Zealand<sup>9</sup>.

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<sup>9</sup> Hongkong Bank (1988) reported that Japanese investors bought property worth \$1.6 billion in 1986 and \$5 billion in 1987, making Japan the largest overseas investor in Hong Kong real estate market. Also, it estimated that Australians and New Zealanders spent over \$2 billion in 1987 on Hong Kong real estate, while Mainland Chinese and Taiwanese each reportedly invested about \$1 billion.



**Figure 2.1** The average growth of GDP in Hong Kong, 1982-97.

Sources: 1. 1982-93: United Nations (1997) Table D.

2. 1994-97: Census and Statistics Department (1998b) Table 1.

Although the overseas investment concentrated mainly on the commercial sector, it indirectly created an investment climate for local people in buying residential premises. The tight labour market and double digit economic growth in 1986 (see Fig. 2.1) led to a respectable rise in real income. For instance, between 1981 and 1986, the median family income rose from \$2,955 to \$5,160. The proportion of households earning \$10,000 per month or more rose from 5.5 per cent in 1981 to 18.4 per cent in 1986 (Census & Statistic Department 1986). This greatly enhanced their purchasing power and enticed them to enter up into the housing market. Even the world-wide stock market crash in October 1987 could not deter people from queuing outside the sale offices of property companies. The very active property market continued to flourish until June 1989.

Shocked by the June-Fourth massacre in Beijing, the residential property market faced the brunt of this political unrest. The property market could be divided clearly between pre- and post-Tiananmen Square events. The total value of private domestic property stock was estimated to fall from \$457,249 million on 1 April to \$381,041 million after 4 June (at 1988 market price; Walker 1990, Table



3.1). Real estate and land prices further dropped by 30-50 per cent within the next two months (Jao 1995, p.111). Facing with the bleak economic outlook, the banks curtailed the loan-to-valuation ratio to 80 per cent or even 70 per cent in order to minimise their risks in the downturn property market. Virtually, property sales activity was reduced dramatically and almost stagnated.

(g) 1990-95

The property market crash following the events at Tiananmen Square was brief. In September 1989, the market started to rebound. Developers cut down the price of the pre-completed flats for about 10-15 per cent to provoke buying interests. Banks also relaxed their mortgage lending policies and offered 90 per cent advance to the home purchasers, so that they could purchase flats with a smaller amount of down payment. So, property prices returned to their pre-crash levels by the end of 1989.

The buyers' confidence was further boosted following the swift victory by the Allied forces in the Gulf War in March, 1991. In July, the announcement of the Memorandum of Understanding on the Chek Lap Kok Airport between the Chinese and British governments greatly pushed the property prices to a high level. The negative real mortgage rates, because of accelerating inflation due to the HK-US dollar linked-exchange rate system, acted as an added impetus<sup>10</sup>. Prices of all small- and medium-sized flats increased for about 10-15 per cent (Wong, W.Y. 1994, p.23). The property market was now fuelled by the demands not only of end-users but also of speculators.

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<sup>10</sup> The linked-exchange system means that Hong Kong follows United States' interest rates even though Hong Kong's higher growth rate might merit tighter credit. That situation produced chronic inflation and low, even negative, real interest rates that sent property prices into the dizzyingly high. For example, inflation rose from 4-5% in 1986 to 10-11% in 1991, while the best lending rate rose moderately from 6.5-7.5% in 1986 to 8.5-10.5% in 1991. As a consequence, the real interest cost on home mortgages went from being positive to negative (Wong & Staley 1992, p.326).

The rampant speculative buying raised public concern<sup>11</sup>. In response to the public calls over speculation, the Government then introduced new measures to combat the speculative activity on 6 November 1991. These included the request of developers to hold lotteries in the pre-sale of new housing units to the public, the extension of stamp duty levies to transactions in the pre-sale market and the enforcement of a more vigorous application of the inland revenue code to collect profit tax on short term trading in the property market.

However, these measures were unable to dampen down the property heat, and property prices continued to surge unabated. In reducing the exposure to the property market, banks tightened their credit policies, and decreased the mortgage ratio from 90 per cent of a property value to 70 per cent in November 1991. Soon afterwards property prices began to fall.

While the price of small- and medium-sized flats dropped in 1992, the luxury sector was very active at that time. This was due to the Mainland Chinese investment on luxury apartments. The sudden surge of Chinese activities in Hong Kong was the result of the highly publicised visit by Deng Xiaoping to Guangdong in the Chinese New Year of 1992 in support of accelerated reforms<sup>12</sup>. Since then, the level of investment from China was estimated to total US \$20 billion or HK \$156 billion in 1992 (Maruya 1995, p.133), surpassing that from either Japan or the United States and making China the leading investor in Hong Kong. In the real estate sector, the Chinese investment jumped from \$7,270 million to \$20,000 million in 1992, an increase of 175 per cent (Hastings 1995, Table 5). Since the purchasers of the luxury units were not influenced by the 70 per cent mortgage ceiling, and the supply of luxury units had declined since 1989, the price of these

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<sup>11</sup> At the beginning the major public concerns centred around two issues. First, triad members wishing to turn a quick profit often used strong-arm tactics to jump the queue making it difficult for genuine buyers to acquire units directly from the developer. Second, final users who waited in queues on the announced date of public sale often found that many of the choice units had already been privately sold ahead of time to property agents or speculators. Many buyers were therefore compelled to pay a considerable premium in order to acquire their units from property agents or speculators.

<sup>12</sup> In his visit to Guangdong during the Chinese New Year in 1992, Deng Xiaoping proposed that Guangdong should catch up with the Asian 'Four Little Dragons' within the next 20 years. See Deng Xiaoping's 'Southern Speech' that was widely publicised in China after his tour.



units increased approximately 33 per cent in 1992 (Wong, W.Y. 1994, p.25). Thus, in this year, there was a diverging trend of small- and medium-sized flats and the luxury units.

In order to overcome the hurdle of the 70 per cent mortgage limit, developers offered their own private mortgage schemes to potential purchasers that were above the mortgage ceiling. This received a good response from home buyers, and all the units in the pre-completion schemes were sold out within a few days. Such response stimulated the housing market, and the mass residential property market rebounded at the beginning of March 1993. The luxury sales market continued its upward trend. The over-heated luxury property prompted the banks further tighten the screw on mortgage lending and drop the maximum lending ratio to 60 per cent for loans on homes worth more than five million dollars. Despite the mortgage restrictions of the financial institutions, the prices of luxury flats further rose by 10-15 per cent. Overall, the mass residential house price surged by 80 per cent from 1991 to 1993 (Tse, R.Y.C. 1996, p.115).

In view of the continued surge of residential property price, the then Governor, Sir Chris Patten, established an Anti-Speculation Task Force in March 1994. In late March, the Government announced a second round of measures to curb speculation that included reducing the quota for 'internal sale' by developers from 50 per cent to 10 per cent, banning the re-sale of uncompleted flats, restricting pre-sales to nine months before completion, doubling the deposit for units to 10 per cent, and raising the forfeiture amount included in an estate contract from 3 per cent to 5 per cent. Such high profile measure severely dampened speculative activities. The residential property price started to drop and reached its cyclical trough in October 1995.

#### (h) 1996 to present

In March 1996, the residential property price revived again. From their lows reached in October 1995, prices of flats in popular housing estates increased by

more than 25 per cent by October 1996. Prices in the luxury sector rose even more, with some units recording gains of more than 50 per cent (Hang Seng Bank 1996). The main force to push up the price was the keen competition among the banks for mortgage business that led to interest rate concessions. At that time, the mortgage rate offered to most new home buyers could be as low as around 0.75-1.25 percentage points below the standard mortgage rate.

Moreover, speculative activities resumed, but took a new direction. Buyers now set up companies to purchase properties from developers to circumvent government regulations that prohibited the re-sale of uncompleted flats by individuals. The re-sale of uncompleted units involving registered companies rose from 9-10 per cent in 1995 to 18 per cent of total transactions in November 1996 (*Ming Pao*, 9 December 1996). Such activities alarmed the Government and urged developers to adopt self-regulatory measures<sup>13</sup>. Also, on 29 January 1997, the Hong Kong Monetary Authority requested banks to tighten mortgage criteria for homes worth more than \$12 million and reduce mortgage ceiling from 70 per cent to 60 per cent for luxury flats. Though the speculative activities in the luxury sector quietened down, the mass residential prices showed no sign of falling. The return of people's confidence on Hong Kong smooth re-unification with China boosted up the buying and speculative interests.

So far, the Government adopted measures to cool the private residential market by curbing the demand for flats artificially. But, starting from 26 March 1997, the Government introduced policies to increase the supply of housing units. The new policies included the relaxation of pre-sale period for private domestic units from 12 months to 15 months and that of subsidised owner-occupied units to 24 months. This immediately increased the supply of an additional 18,000 units including 13,000 subsidised ones. Also, the Government imposed further

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<sup>13</sup> The main measures adopted by property developers since mid-January 1997 are: (i) for the registered companies who register in the pre-sale projects, change of personal in the directorship is not allowed before the signing of the transactions; (ii) only 15% of sale units will be allocated for the registered companies to buy; (iii) the total number of sale units available in the projects must be known to the public; (iv) the 10% units for internal sales must be allocated to the genuine end-users; and (v) drop-box method will be used to avoid queues outside sale offices.



regulations on developers' selling practices, that is, all units must be sold within six months after the issuance of the occupation permit, and the number of units sold in each phase must not less than 20 per cent of the total units provided in the project. Moreover, the Government urged developers, solicitors and estate agencies to issue internal regulations to discourage their members to participate in speculative activities. The concerted efforts by the Government and the private sector pushed the housing price drop rapidly in April.

The residential housing price was further pulled down after Leung Chun-ying's, the top aide to the then Chief Executive-designate, announcement in June. He made a strong recommendation to the new government of the Hong Kong Special Administrative Region (HKSAR) to take tough action in stamping out property speculation. The market was then filled with uncertainty of Tung Chee-hwa's, the Chief Executive, action on the high housing price. On 1 July 1997, Tung declared his ambitious plan to supply 85,000 units per year. The effects of Tung's and Leung's statements significantly weakened the buyers' interests who anticipated further drop of prices. As a result, the property transactions declined by 32.6 per cent in August (*SCMP*, 4 September 1997).

The market was further dampened after the upheaval of the Asian economic turmoil in October 1997. At the time of writing (June 1998), property prices have fallen 30 to 40 per cent since their 1997 peak (*SCMP*, 21 May 1998). The main reason for the rapid drop in property prices is the imbalance of supply and demand. The demand has significantly dropped as people are uncertain about Hong Kong's economic outlook. There are signs, too, that interest rate and unemployment rate will move upwards and will impinge on the property market. To stimulate the buying incentive, developers were being forced to cut prices of new units to achieve sales and maintain cash flow. The price war among developers in mid-May<sup>14</sup> was described as the most intense since 1982 (*SCMP*, 27 May 1998). As a

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<sup>14</sup> The price war was started on 11 May 1998 when Cheung Kong announced a lower than expected \$4,147 per sq ft for flats in Tierra Verde, Tsing Yi. On the following day, Sun Hung Kai announced a 12% cut in prices to \$3,750 per sq ft for the remaining units of its Mount Haven development in

result, buying interest was totally absorbed by the primary market while the secondary market had almost come to a standstill. The market was hit further by the disappointing government tender of a 75,950 square feet residential site on the Aldrich Bay Reclamation, which sold for only \$1.67 billion — more than 40 per cent below the land price paid for a residential project in nearly Siu Sai Wan early last year.

To reduce the further decline in property prices, HKSAR government announced a rescue package on 29 May 1998. Nearly all anti-speculation measures, with the exception of issues related to taxation, imposed in March 1994 (mentioned above) were suspended<sup>15</sup>. Nevertheless, the downward trend of property prices will continue as it is anticipated that more new housing units will be put onto the market within this year. Most importantly, the supply of mortgage finance has become more constrained because lenders, facing continued high levels of default, exercise greater prudence. It is estimated that it will take at least a year for the property market to show signs of recovery.

As a whole, Hong Kong has experienced eight property cycles. Four of them resulted from the direct or indirect effect of external influences. They were the United Nations embargo on entrepot trade in 1951, the oil crisis and world recession in 1974, the June-Fourth massacre in Beijing in 1989 and the Asian financial crisis in 1997. The others arose from the internal economic and political problems and the 1997 issue. Nevertheless, Hong Kong property market was quick to recover. Every recovery had its own distinctive characteristics and as far as residential premises were concerned, the prices at each peak surpassed those of the previous one. Real property prices rose at an average annual rate of 11 per cent between 1984 and 1996 (*Ming Pao*, 19 June 1997). Such strong performance

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Tsing Yi. Later, other developers, including Henderson, Sino and Wheelock, also have joined in the price war.

<sup>15</sup> The rescue package includes: (i) to extend the pre-sale of uncompleted flats from the present 15 months to 20 months; (ii) to suspend the prohibition on re-sale of uncompleted flats before assignment; (iii) to suspend the limitation on flat sales to companies to the last 15% of each batch for pre-sale; (iv) to suspend the requirement that developers have to put all flats for pre-sale onto the market within 6 months of the date of consent given; and (v) to suspend the requirement that



inevitably attracted a lot of players, locally or internationally, pouring their funds into the property market. The following section describes the characteristics of Hong Kong residential property market that contribute its great volatility.

### *Characteristics of the residential housing market*

While the United States, the United Kingdom and Japan have been in a housing slump since 1990<sup>16</sup>, the Hong Kong's housing prices still persistently remain at a high level. The reasons for such contrasting performance lie in the fundamental differences in political interest, economic policies and community values between these countries. Ho (1990, p.74-77) points out the following favourable factors for the Hong Kong market:

- (a) the island nature of Hong Kong where the supply of land is in great shortage;
- (b) growing affluence and rapidly expanding economies where GDP growth in the past two decades has averaged between 6 to 12 per cent per annum (see Table 2.1 and Fig. 2.1);
- (c) immigration and the flow of capital mainly from China, Southeast Asia and Japan;
- (d) in the commercial sector, even unfavourable political factors, such as the hostility between China and Taiwan, can create a boom. For example, the Taiwanese have recently been acquiring more commercial properties in Hong Kong in order to consolidate their own presence, in anticipating of being discriminated against after 1997;
- (e) availability of lower labour and material costs and year-round construction activities; and
- (f) efficient legal, financial, transport and communication systems and a hardworking labour force with little political or social unrest.

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developers have to put onto the market not less than 20% of flats approved for pre-sale for each batch of flats for pre-sale.

<sup>16</sup> For example, the values of houses in Los Angeles in 1994 were down 30% from their 1990 peak. The return on housing has lagged well behind that of stocks and bonds during the last decade (Spiers & Schiff 1994).

Another reason for the hyper-active real estate market in Hong Kong is its simplicity. Because development primarily involves new construction, it can proceed immediately after complying with the prescribed requirements in the Outline Zoning Plan (details of the development process will be discussed in Chapter 5). This simple form of development means that anyone with the necessary capital can enter the game with a reasonable chance of success. In North America, because of the diversity in forms of development that can take the form of land re-zoning, sub-division, renovation, rehabilitation, new construction and property trading among others, the game requires much professionalism (in addition to capital) and is not for everyone (*ibid.*, p.77). Also, the Hong Kong simple tax system favours the property investment activity, and most importantly, Hong Kong has no capital gains tax.

Financing property development or making purchases in Hong Kong is made simple in order to facilitate transactions. For development, a company can easily obtain a specific project term loan from financial institutions. The financial burden can be relieved shortly by pre-sales of the uncompleted units, a form of futures option. As mentioned earlier, banks in Hong Kong offer attractive mortgage package. The Government, some semi-government institutions and private companies also extend low interest housing loans to their staff. As a result, mortgages in Hong Kong are simple, competitive but with all risks placed on the investor. However, the high yields (will be discussed below) often mean that the return is higher than the cost of borrowing, which is another reason why investments in Hong Kong properties are so attractive. In other words, financial institutions in Hong Kong are basically to facilitate speculation or investment, by placing all risks of any increase in interest on the buyers (*ibid.*, p. 79).

The final characteristic that distinguishes Hong Kong real estate market from other countries is its high property yield<sup>17</sup>. Tse, R.Y.C. (1996, Table 1) finds

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<sup>17</sup> Property yield is the conventional way to measure return on real estate. It is also called the capitalisation rate of the rent-to-value ratio that measures incomes yield of property. However, the internal rate of return on capital, the true measure of return, includes income yields as well as growth of capital values of property (Tse, R.Y.C. 1996).



that property yields ranged anywhere from 8 to 10 per cent from 1980 to 1990<sup>18</sup>; and Ho (1990, p.79) reports that the appreciation gains over 1984 to 1989 was doubled or tripled. These two factors, when put together, have achieved a sort of golden formula for investors, that is, high yields and a strong appreciation on a cyclical basis. Thus, timing is a major determining factor that allows investors 'ride' with market and take advantage of the upswings in these cycles to accumulate great wealth over short periods.

The above characteristics can be attributed to the strong performances of Hong Kong property market. As a consequence, Hong Kong residential real estate has become an increasingly popular and important investment. It inevitably results in a strong preference for home ownership in the community. The next section therefore describes how the home ownership rate grows in Hong Kong, compares its performance with other countries, and identifies the key factors that contribute to its growth.

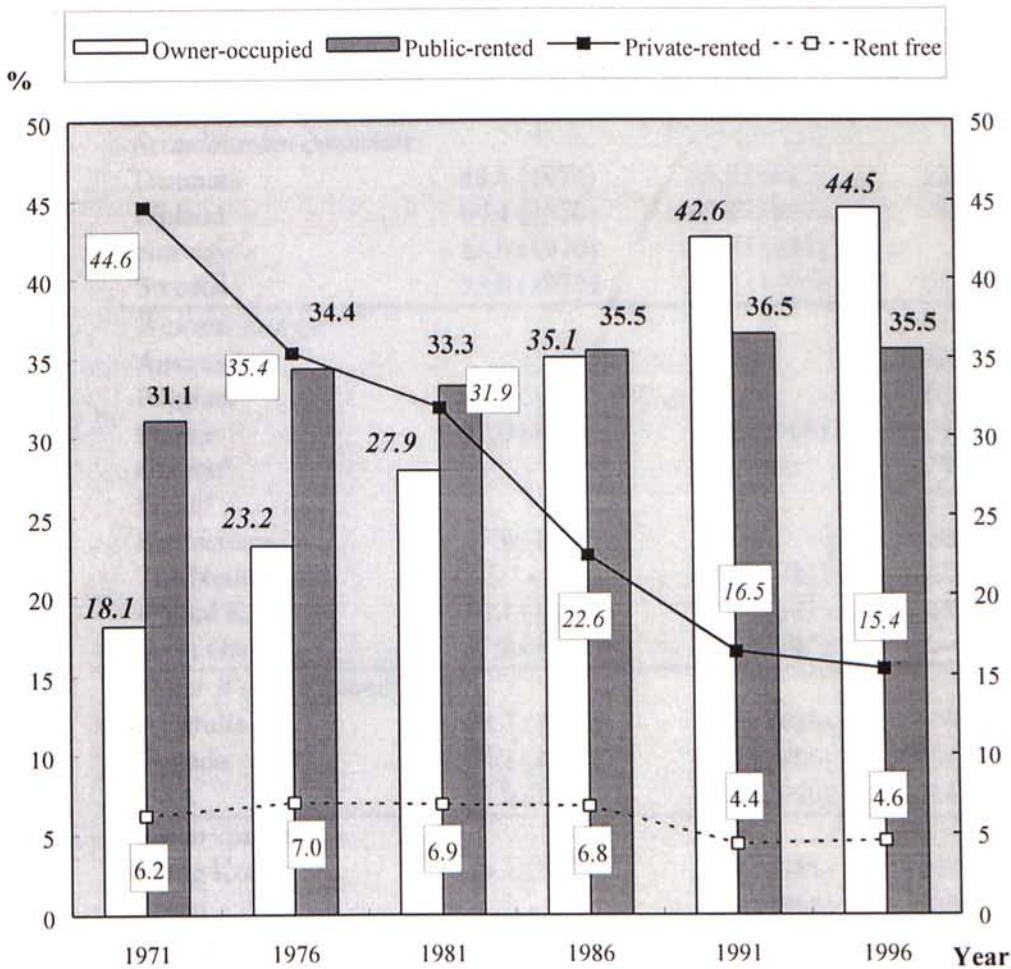
### **Growth of home ownership**

#### *The home ownership rate*

While Hong Kong is hailed as having the world's second largest public housing programme after Singapore, the public housing in the 1990s is no longer the dominant tenure in the territory. This is evidenced in Figure 2.2. In a period of 25 years, the percentage of owner-occupied households jumped from 18.1 per cent in 1971 to 44.5 per cent in 1996. Indeed, starting from the 1980s, property has become a major store of value for Hong Kong. In April 1989, the total value of private domestic property was \$457,249 million and, by April 1993, it rose to \$1,375,325 million (Wong, Chau & Lai 1996, Table 4.5).

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<sup>18</sup> In Japan, property investment traditionally generated a 3% yield before the collapse of Japanese financial market in 1989 (Shreeve 1992, cited in Leyshon 1994, p.136).



**Figure 2.2** Trend of housing tenure in Hong Kong, 1971-96.

Sources: Census and Statistics Department, summary results of population censuses.

But, in comparison with advanced capitalist countries, the home ownership rate performance is not impressive. Table 2.2 shows that nearly all advanced capitalist countries have an over 50 per cent home ownership rate, with the exception of Sweden, Switzerland and The Netherlands<sup>19</sup>. Among the newly industrialised countries (Singapore, Taiwan, Hong Kong and South Korea), the rate of Hong Kong is the lowest. However, despite its relatively low level, it is on the rising trend, while some countries, like the United States and South Korea, have experienced a declining owner-occupation rate.

<sup>19</sup> However, there is a difference in owner-occupied housing in developed and Third World countries. Home ownership in rural-based societies as Bangladesh is not like the type of home ownership in urban-based societies. In fact, owner-occupied housing in rural societies is self-provided with low quality, while that in urban societies is provided in a capitalist way.



**Table 2.2** The percentage of owner-occupation in selected countries.

Countries	1970s	1980s	1990s
<i>Scandinavian countries</i>			
Denmark	48.6 (1970)	54.0 (1980)	52.0 (1990)
Finland	60.4 (1970)	65.0 (1985)	78.0 (1992)
Norway	52.6 (1970)	60.0 (1988)	-
Sweden	35.0 (1971)	55.0 (1986)	55.0 (1991)
<i>Western Europe</i>			
Austria	-	-	50.0 (1990)
Belgium	55.9 (1971)	-	65.0 (1991)
France	47.0 (1978)	54.0 (1988)	54.0 (1990)
Greece*	-	-	78.0 (1990)
Spain*	-	-	78.0 (1990)
Switzerland	27.9 (1971)	-	30.0 (1990)
The Netherlands	-	44.0 (1981)	47.0 (1993)
United Kingdom	50.1 (1971)	58.0 (1981)	68.0 (1994)
West Germany	37.0 (1978)	38.0 (1987)	-
<i>Other Western countries</i>			
Australia	68.7 (1971)	70.0 (1986)	70.0 (1994)
Canada	60.2 (1971)	63.0 (1986)	63.0 (1991)
USA	62.9 (1971)	65.6 (1980)	64.0 (1992)
<i>Asian countries</i>			
Hong Kong	18.1 (1971)	27.9 (1981)	44.5 (1996)
Japan	-	61.4 (1988)	60.0 (1993)
Singapore	21.0 (1975)	71.0 (1988)	79.0 (1991)
South Korea	68.2 (1971)	58.6 (1980)	50.6 (1990)
Taiwan	74.6 (1979)	79.8 (1989)	-
Thailand	-	88.6 (1981)	-
<i>Third world countries</i>			
Bangladesh	-	90.0 (1981)	-
Brazil	60.4 (1973)	62.0 (1980)	-
Mexico	-	68.0 (1980)	-

\* The large owner-occupied sector in these countries have high proportions of rural households where the traditional tenure has been owner-occupation.

- Sources: 1. 1970s' data for Denmark, Finland and Norway and 1980s' data for Sweden - Wood (1990) Table 2.  
2. 1970s' data for Australia, Belgium, Canada, Sweden, Switzerland, United Kingdom and USA - Kemeny (1978) Table 1.  
3. 1970s' and 1980s' data for Denmark, France, Norway, Sweden and West Germany - Harloe (1988a) Ch. 2.  
4. 1990s' data for Austria, Belgium, Denmark, Greece, Spain and Switzerland - McCrone (1995) Table 4.  
5. 1990s' data for Australia, Canada, Finland, France, Japan, Sweden, The Netherlands and United Kingdom - Freeman (1997) Table 1.  
6. 1980s' data for Finland - Ruonavaara (1990) p.129.  
7. USA - Stegman (1995).  
8. 1970s' and 1980s' data for Canada - Choko (1993) Table 1.1.  
9. Hong Kong - Census & Statistics Department, various years.  
10. Singapore and Taiwan - Sai (1995).  
11. 1980s' data for Japan - Hirayama & Hayakawa (1995).  
12. Bangladesh, Brazil, Mexico, Thailand and South Korea - Yoon (1994) p.31.

*Explanations for the growth of home ownership*

In the western world, a number of authors have attempted to explain levels of home ownership through theoretical models or through specific causal factors. Summarising the most common theoretical models, Duncan (1982) posits six categories of explanations:

- (a) cultural: in which culture is an external structure greater than and influential upon individual decision makers who produce and consume housing;
- (b) structural Marxist: in which the active force is the mode of production;
- (c) modernisation functionalist: in which an evolution in housing is an adaptation to industrialisation and its needs;
- (d) psychological and sociobiological: in which home ownership is a 'universal' human need;
- (e) neo-classical and behavioural: in which home ownership is a result of individual attitudes, motivation, and desires, within the context of national economic choices; and
- (f) manipulated city/conspiracy: in which a power elite of capitalists and government officials that intentionally manipulates the market.

Similarly, in explaining the dominance of owner-occupation in Finland, Ruonavaara (1990) suggests four types of explanation for home ownership levels. They are:

- (a) consumer choice: in which there is a strong consumer preference for owner-occupation;
- (b) producer choice: in which the real choice that can be exercised by consumers is constrained by conditioning they have received at the hands of producers;
- (c) housing policy: in which crucial choices are made not by consumers or producers but by politicians and other public policy makers, not necessarily in a conspirational manner; and



- (d) a systemic explanation: in which the housing system has developed into a state where owner-occupation is the optimal solution to the functional requirement of satisfying the housing needs of the population.

Ruonavaara also mentions the possibility that explanations may vary over time. For example, the factors behind owner-occupation growth in the 1950s could be different from those behind the rise in the 1970s.

In short, explanations on the growth of home ownership have largely been around three issues: consumers' gains in becoming home owners, the roles of government in promoting home ownership and the way of producers in supplying owner-occupied housing. As the last one will be discussed in later chapters, the following section will only look at how the first two can be applied to explain the growth of home ownership in Hong Kong.

#### *Consumers' gain in becoming home owners*

To become an owner-occupier, a person can acquire psychological and economic benefits. In regard to the psychological value to owners, Saunders (1990, p.280) points out that the property rights associated with owner-occupation provide people with a degree of control over their homes that can never be matched by rental arrangement no matter how enlightened they may be. The increase in control then contributes in turn to a more general sense of control over important life events. Thus, owning a home will enhance self-worth. Seen in this context, Saunders even suggests, 'home ownership is one expression of the search for ontological security, for a home of one's own offers both a physical (hence spatially rooted) and permanent (hence temporally rooted) location in the world' (p.293). In the same vein, Marcus (1987, p.251) suggests, 'home ownership is so widely favoured, because, at a quite deep psychological level, it is a means by which individuals seek to overcome a sense of alienation in their lives as a whole'.

However, in Hong Kong, the Chinese demand for housing differs considerably from that of the westerner. Traditionally, Chinese people take housing and land as an important heritage or property. Housing has thus played an important role both socially and culturally for the Chinese families. But, Goodstadt (1969, p.259) finds that the Chinese in Hong Kong do not seem to attach a very high priority to living in accommodation of a standard that westerners would consider as essential for health and comfort. This attitude to housing, to some extent, merely reflects the general problem of finding decent accommodation of western standard in Hong Kong. Nevertheless, it is true to say that the Chinese people spend a large part of their day outside their home. Chinese social life is carried on largely in restaurants where Chinese entertainment for guests is taken place. It is not usual for any but the closest friends of Chinese to be invited to the home for entertainment. For this reason, the Chinese home does not provide the same opportunities for prestige as does that of the westerner (Topley 1969, p.195).

Furthermore, in early days, two Hong Kong-based academics, Drakakis-Smith and Dwyer claimed that Hong Kong citizens had no incentive to spend on housing. Drakakis-Smith (1971, p.125) believed that it was the result of both political uncertainty and past experiences in China and Hong Kong (the local 1967 riot and the Chinese socialist government). Dwyer was even more pessimistic? He found that people in 1960s were too poor to buy, not to mention that they were too poor to pay the minimum rent for a private housing unit. He estimated that rapid population growth would make three-quarters of the families in Hong Kong into the poverty trap in 1968 despite Hong Kong's prosperity (Dwyer 1975, p.155-156).

Today, both Dwyer's economic pessimism and Drakakis-Smith's concern about political uncertainty and lack of investment incentive have proven to be inappropriate. Hence, it is obvious that people in Hong Kong sought home ownership is not for the fulfilment of their psychological well-being. Rather it is the investment value that attracts people to be home owners.



**Table 2.3** Domestic savings rate of selected Asian economies.

	Gross domestic savings as percentage of GDP		
	1993	1994	1995
Hong Kong*	34.5	33.1	31.0
Singapore	48.5	51.3	55.6
China	41.5	41.4	42.2
Malaysia	35.4	37.6	37.2
South Korea	35.4	35.5	37.0
Indonesia	35.3	35.3	36.0
Thailand	35.0	35.2	34.2
Taiwan	27.0	25.8	26.3
Philippines	13.8	14.9	14.7

\* estimates by Hongkong Bank.

Source: Hongkong Bank (1997).

Traditionally, Hong Kong has high domestic savings rate. Table 2.3 shows that Hong Kong's savings rate, expressed as a percentage of GDP, averaged around 33 per cent in 1993-95, and during the ten years to 1996, it was averaged as high as 35 per cent (Hongkong Bank 1997). Also, Hong Kong people experienced a major income growth. The annual average growth of income per head was over 5.5 per cent in the period of 1970-95 (*Express News*, 3 September 1997). As described earlier, the growth of property prices has been rapid and continuous since 1970s. Hence, home purchase comes to constitute an investment strategy as a defensive mechanism to prevent home buyers' earnings and savings being eroded by soaring property prices. Furthermore, Hong Kong lacks a well-established bond market that can provide an option for investors to have a less risky and stable return of investment. Under these circumstances, property also acts as a substitute for bonds. A significant proportion of home buyers therefore decide to purchase their properties more on the grounds of protecting themselves from being further jeopardised by market buoyancy than that of a search for 'ontological security'. Thus, in buying property, Hong Kong people are concerned more with potential price increases and re-sale values than housing qualities. It is, therefore, a security mainly in the economic sense of the term (Lui, T-L. 1995, p.122). Moreover, throughout the 1980s and early 1990s, the mortgage interest rates have been kept at low levels. This was achieved by the HK-US dollars linked-exchange rate system

and the fierce competition among banks. When house price inflates, the real value of the mortgage debt falls over time with inflation. As a result, home owners have been able to finance an appreciating asset with a depreciating debt. In this climate, 'a family may gain more from the housing market in a few years than would be possible in savings from a lifetime of earning' (Pahl 1975, p.291). The attractiveness of housing as an investment is further exacerbated by the fears about its future affordability. In plain language, people buy houses because it may be 'their last chance to buy'. They fear that, with continued housing price inflation, they soon will be priced out of the market. Thus, the potential increase in the value of a house gears to the rapid escalation of demand for owner-occupied housing in Hong Kong.

On the other hand, it is true to say that the capital gains associated with home ownership are illusory, or merely paper gains. Kemeny (1981) argues, for example, that '... the capital gains made in owner-occupied housing do not generally accrue to anyone: they are simply passed from one owner to another' (p.37). Ball (1983) also casts doubt on the accessibility of the capital accumulated in the owner-occupied housing stock by arguing in effect that they are not realisable gains. Only by trading down (i.e., owners move and buy a cheaper house without themselves incurring any mortgage debt) or by opting out of ownership can these gains be realised. However, Hays (1993) points out that if one looks at home ownership from the perspective of households operating in the context of markets in which it is already the dominant choice, like that in the United States, Australia and Hong Kong, capital accumulation still affords important advantages over renting.

Recently, housing inheritance has been promoted as another form of capital gain in being a home owner. Munroe's (1988) research, for example, confirms that substantial sums of money are indeed passed within families as the result of an inter-generational transfer of housing wealth. However, the growth of home ownership in Hong Kong lags behind that of most western countries. But given the age distribution of home owners and the rapid increase in home owning



among middle aged people in 1990s, they do not rule out the possibility that there may be a greater degree of filtering down in the future. For example, other things being equal, new wealth will be enjoyed by the beneficiaries of at least a half million households over the next 30 years<sup>20</sup>.

However, a study of the 'Indicators of Social Development' in 1992 cast doubt on the belief that there is a strong desire for home ownership in Hong Kong. Lee, J. (1992, p.59) found that not all Hong Kong people gambled their money in property. Only 12.6 per cent of respondents reported that their prime motivation to buy houses was for investment and financial security. A majority (42.5%) opted for home ownership because that was the only way to meet their housing needs. Thus, the findings suggested that there was a possibility that high motivation for owner-occupation might be a result of limited housing alternatives. In such context, the following section examines the role of Hong Kong government in promoting home ownership and compares its performance with other countries.

#### *The role of government in promoting home ownership*<sup>21</sup>

In most countries, the supply of owner-occupied housing has been **deliberately stimulated** by government policies. Part of the motivation for these policies can be attributed to the notion of giving the electorate what it wants. But home ownership has also become a key element in Keynesian macroeconomic policy. The labour-intensive nature of residential construction, together with the multiplier effects of house construction, transportation and domestic equipment, makes it an effective mechanism through which the economy can be regulated and stimulated.

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<sup>20</sup> According to the report of the 1996 Population By-census (Census & Statistics Department, 1997b), 824,184 households were home owners.

<sup>21</sup> The meaning of government can be distinguished from that of the state. The term 'state' generally refers to a set of phenomena that are more inclusive than government. The state includes institutionalised authority, laws and patterns of domination, including those resting on force, politically manipulated incentives and reigning ideas. Benjamin and Duvall define the state as 'the enduring structure of governance and rules in society' (1985, p.25). Defined in this way, the state does not 'do' anything in the standard sense. The state is not an agent or actor — governments are (Wendt & Duvall 1989). 'Government', on the other hand, refers to agents, differentiated organisations and rules that are embedded in the state.

Political and social stabilisation have also been a major motive for government intervention in promoting home ownership. As our Chief Executive observes,

Owning one's home ... is crucial for nurturing a sense of belonging and maintaining social stability. Housing cost also has a strong bearing on the economic vitality of Hong Kong (HKSAR Government 1997a, p.15).

In sponsoring home ownership, Kemeny (1981, p.71-75) and Martens (1988, p.95) identify the role of governments can be divided into three main categories: long-term legislative facilitation of home ownership, the provision of financial benefits for home owners and the direct funding of building for home ownership.

- (a) Long-term legislative facilitation of home ownership: Here is a stream of legislative activity designed solely to foster the growth and security of a home ownership finance market. This was particularly marked in the first half of the twentieth century. In this period, governments had spent a considerable effort to enhance the conditions for mass home ownership by the development of the financial infrastructure to provide loans to households. The most notable elements of this infrastructure included the setting up of state saving banks specifically for the finance of home ownership (most notably the State Savings Banks in Australia), guaranteeing loans by specific finance institutions to low-income earners (the USA), encouraging the growth of building societies (the UK), and directly financing loans for target groups of middle-income households (Singapore).
- (b) Provision of financial benefits for home owners: Here is a series of taxation policies, a kind of 'subject subsidies' (Oxley 1987, p.166), to reduce the costs of borrowing for home owners. In Britain, for example, interest payments on all personal borrowing were exempt from taxation until 1969, when the relief was abolished with the exception of housing loans (Martens 1988, p.99). Similarly in the United States, the tax code allows home owners to deduct their



mortgage interest and their local property taxes from the federal taxes<sup>22</sup>. Apart from the United States, unlimited reliefs on mortgage interest payments also exist for home owners in Denmark, France, Japan, Singapore<sup>23</sup> and The Netherlands. Indeed, direct subsidies to owner-occupation have played a major role in the expansion of home ownership in many advanced countries.

- (c) Direct funding of building for home ownership: This includes production subsidies or 'object subsidy' (Oxley 1987, p.167) for owner-occupied house building, or the government construction of the dwellings itself. Production subsidies generally take the form of capital grants or premises, either lump sums or with payments spread over a number of years, or of below market interest payments for mortgage loans (or even a combination of the two as occurred in France; Martens 1988, p.98). In many cases, object subsidies come with specified criteria restricting the price, type or size of the dwelling, or the type of consumer. But, in Singapore, the major means of sponsoring home ownership is direct government building. The direct massive provision of owner-occupied flats by the Housing and Development Board, a state-owned housing provider, has played a decisive role in the remarkable achievement of the extraordinary high home ownership rate in Singapore<sup>24</sup> (79% in 1991, see Table 2.2).

However, the above strategies to promote home ownership represent only one aspect of package. Kemeny (1981, p.76-78) identifies another major tool that can maximise the effectiveness of subsidies in moving households into home ownership is the stigmatising of public renting. For instance, governments in Australia and the United States build low quality and relatively unattractive public

<sup>22</sup> In fact, in 1990, the cost of the direct supply to the federal government in uncollected taxes of home owners was estimated at US \$78.4 billion, in contrast to \$18.3 billion in direct outlays for low income housing assistance (Hays 1994, p.300).

<sup>23</sup> For example, in Singapore, property tax is payable on properties on the basis of 'annual value', that is, their annual rental for properties. 36% was levied on urban premises in 1978, but 23% on owner-occupied residential premises in order to encourage home ownership. This tax was reduced to 23% in 1983 and 1984. Since 1 July 1990, property tax has been adjusted to 16%, while owner-occupied dwellings have been taxed at a concessionary rate of 4% (Zhu 1997, footnote 2).

<sup>24</sup> In fact, the Housing and Development Board provided 85% of total owner-occupied housing units in the early 1990s (Chau, B.H. 1991, p.26).

housing units, and apply harsh means-testing to select the poorest of the poor. Thus, the limited access to public renting by those who can afford other tenures is clearly aimed at preventing public renting from becoming a competitive alternative to home ownership.

Furthermore, in expanding home ownership opportunities for low-income people, nearly all governments in western countries have tried to sell off public housing stock into owner-occupation at discount prices and with cheap finance. A typical example is Britain. Between 1980 and 1991, there was an 11 per cent increase in the proportion of dwellings that were owner-occupied — 57.4 per cent in 1980 to 69.1 per cent in 1991<sup>25</sup> (McLavery & Yip 1994, Table 1). Much of the increase in owner-occupation was due to council tenants buying their council dwellings under the provisions of the right-to-buy scheme introduced in 1980. The discounts offered initially were up to a maximum of 50 per cent of the market value of the council dwellings, later they were increased to a maximum of 60 per cent for a council house and 70 per cent for a council flat (Forrest & Murie 1988). As a result, around 1.3 million council dwellings were sold in England over the above period, of which more than 1.1 million were sold to sitting tenants. Thus, the public housing sales policy has been a significant effect to move households out of public renting and into home ownership.

In sum, the growth of home ownership in Australia, Singapore, Western Europe and the United States has been the consequence of major government intervention. However, when compared with commitment to the extension of home ownership, the Hong Kong government's performance is limited. Hong Kong has no tax advantages of home ownership. The major incentive helping to shape owner-occupied housing markets is tax exemptions on capital gains made on house sales by individual home owners. The direct involvement in the promotion of home ownership only started in the mid-1970s.

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<sup>25</sup> The dramatic increase of home ownership rate was also due to the decline of public rental sector through reducing or halting new building for public rental, and demolishing units in public sector. For example, in 1981, 118,000 publicly owned dwellings were sold, but only 66,000 new public dwellings were constructed (Forrest & Williams 1984, p.1171).



**Table 2.4** The percentage distribution of domestic households by monthly household income, 1971, 1976 and 1981.

<b>Monthly household income (HK\$)</b>	<b>1971*</b> (%)	<b>1976*</b> (%)	<b>1981</b> (%)
under 1,000	20.4	13.3	9.5
1,000 - 1,999	43.4	32.6	19.0
2,000 - 2,999	19.1	23.7	22.3
3,000 - 4,999	10.3	18.0	26.2
5,000 - 6,999	2.9	6.5	11.2
7,000 - 9,999	2.1	3.0	6.4
10,000 and over	1.8	2.9	5.4
<b>Median income (HK\$)</b>	<b>1,600</b>	<b>2,132</b>	<b>2,955</b>

\* at 1981 prices

Source: Census and Statistics Department (1982).

Since 1973, the Hong Kong economy had undergone spectacular growth. The level of household income was increasing. Discounting the increases in consumer prices, the median household income rose by 33 per cent from 1971 to 1976, and by 39 per cent from 1976 to 1981, giving real income growth at annual rates of 5.4 per cent and 7.4 per cent for the respective periods (Table 2.4). The general increase in income among a greater proportion of the population resulted in a greater urge for improvements in housing quality and for home ownership. The strong demand was also sustained by the change of the demographic structure. Since the 1970s, the proportion of the population aged 25 and 44, the marrying age, increased steadily from 23 per cent in 1971 to 27.4 per cent in 1981 (Table 2.5). The strong aspirations of this group to home ownership generated a firm demand for residential property. Thus, in addition to the provision of basic shelters to those with housing need<sup>26</sup>, the Hong Kong government introduced new measures to cope with the changing needs and the housing demands of the growing number of these new middle-income households.

<sup>26</sup> The social concept of 'housing need' has to be distinguished from the economic concept of 'housing demand'. 'Housing need' refers to the inadequacy of provision of accommodation when compared with a socially acceptable norm. It takes no account of ability to pay. 'Housing demand' relates to the accommodation for which people are able and willing to pay. Households that represent effective demand for housing may or may not be in need of housing from a social point of view. On the other hand, households living in overcrowding housing units represent a housing need, but if they do not have the ability to pay the price, they do not represent housing demand.

**Table 2.5** Percentage distribution of population by age, 1961-96.

Age group	1961	1971	1976	1981	1986	1991	1996
under 15	40.8	35.8	30.1	24.8	23.1	20.9	18.5
15-24	11.8	19.4	22.0	23.0	18.8	15.2	14.0
25-44	30.5	23.0	23.9	27.4	32.3	38.5	38.1
45-64	14.1	17.3	18.5	18.2	18.2	17.7	19.3
65 and over	2.8	4.5	5.5	6.6	7.6	8.7	10.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Median Age</i>							
	23.2	21.7	23.9	26.0	28.6	31.5	34.0

Sources: 1. 1961-86: Census and Statistics Department (1986) Table 6.

2. 1991-96: Census and Statistics Department (1997b) Table 3.

In 1978, the Home Ownership Scheme (HOS) was introduced whereby flats for sale were built by the Government for purchases by families from the private sector with incomes not exceeding \$3,500 per month. However, preference was given to households already living in public rental housing (PRH). This preference was aimed at encouraging those whose income had improved to vacant rented units, thus releasing units for lower-income households in need. Later, the Private Sector Participation Scheme (PSPS) was introduced in the same year as a supplement to the HOS. Under this scheme, sites are offered for sale to property developers on the condition that the flats produced are sold at a fixed price to purchasers nominated by the Government. Then, in 1980, the Middle-income Housing Scheme was introduced for families with incomes between \$5,000 and \$10,000 per month. This scheme was as an extension of PSPS but in 1982, it was discontinued since market conditions had returned to a level in which such housing could be supplied by private developers at affordable prices. So, during the late 1970s to mid-1980s, the Government's contribution to home ownership was confined to direct provision of owner-occupied housing. It was not until 1987, the announcement of the Long Term Housing Strategy (LTHS), covering the years between 1985 and 2001, that home ownership has been placed major emphasis.

LTHS has both expanded existing home purchase assistance schemes and introduced new ones to boost home ownership. The Home Purchase Loan Scheme (HPLS) was introduced in 1988 to families who meet the income and other criteria



for the purchase of HOS/PSPS flats to have an alternative of an interest-free down payment loan for the purchase of a new private flat. Unfortunately, the scheme was introduced at a time when the housing price was escalating fast, rendering the loan insufficient for paying the down payment and other initial costs. Given the apparent failure of the HPLS, another home ownership scheme, the Sale of Flats to Sitting Tenants was proposed in October 1990 to attract public tenants to be home owners. However, the scheme failed due to the high selling prices<sup>27</sup>.

So far, the home purchase assistance schemes were intended only to help better-off tenants of PRH estates and the lower-middle-income households in the general public. But, starting from 1993, the assistance extended to the so-called 'sandwich class', that is, families whose income exceeds the income limits for home purchase subsidy schemes but is insufficient for the purchase of private housing. The new Sandwich Class Housing Scheme (SCHS) comprises an interim loan scheme<sup>28</sup> and a main scheme. In the main scheme, the Hong Kong Housing Society, an independent and non-profit making organisation, is delegated to build SCHS flats for sale.

In the recent review of the LTHS (Hong Kong Government 1997a), covering the years between 1995 and 2006, new strategies were proposed to widen the access to home ownership. Two of them could exert significant impact on the growth of home ownership among PRH tenants. The first one was the introduction of means-test to the child of a deceased tenant who wanted to inherit the tenancy. The second one was to increase the median rent-to-income ratios to 15 per cent and 18.5 per cent for different classes of estates<sup>29</sup>. These two strategies would limit the security of tenure and make PRH less attractive than owning and in a way compel sitting tenants to buy flats.

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<sup>27</sup> The Sale of Flats to Sitting Tenants was first proposed to sell off 7 5-years old estates as a trial scheme in late 1991. This pilot scheme was failed and revised. Concessions on the sale price were made by reducing the price from 40% to 20-30% of the market price. However, the revised proposal was vetoed by the Executive Council as the selling price was too low (*Ming Pao*, 25 March 1993).

<sup>28</sup> Up to March 1997, there were totally 22,500 loans granted to families buying their own homes through the HPLS and SCHS loan schemes (Hong Kong Housing Bureau 1997, p.17).

Apparently, Hong Kong government aims at achieving a high rate of home ownership with a minimum government intervention. Most of the housing policies in promoting home ownership target at encouraging PRH tenants to become assisted home owners. It is not surprising that the increase in home ownership rate among public housing residents was impressive, rising from 8 per cent in 1985 to 16 per cent in 1990 and to 23 per cent in 1995 (HKHA 1996a). But, the overall home ownership rate in 1996 was below 50 per cent (see Fig. 2.2) that failed to achieve the LTHS's target — 60 per cent by 1997. Indeed, Hong Kong in the last two decades has relied heavily on private sector to provide affordable owner-occupied housing. The consequence of such a policy has resulted in the private housing market being given the greatest boost in its development.

## Conclusion

From the preceding discussion, it can be seen that Hong Kong stands in stark contrast to other countries in its housing market performance and its growth of home ownership. While the housing markets in the western world suffer from problems centring around falling price and demand, Hong Kong housing price is ever-spiralling upwards. Such performance is the end-product of the interplay of a host of factors: an increasing population, fast economic growth, the simple property market structure and the Government's housing policies. With the population becoming richer and its easy access to mortgage finance, the escalating housing prices cause significant changes in people's aspirations and attitudes towards housing. Hong Kong people now place more importance on the investment value rather than the 'use value' of the flats. In other words, it is the strong desire for property ownership rather than home ownership that boosts the home ownership rate in Hong Kong.

Although Hong Kong government has expanding its commitment to assist lower-middle- and middle- income households in becoming home owners, there is

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<sup>29</sup> However, the Housing (Amendment) Ordinance was enacted by the former Legislative Council on 28 June 1997, which keeps rent rises to no more than 10% of the median household income.



some doubt about such assistance schemes can further increase the home ownership rate at the existing level of housing price. Given the limited access to assisted owner-occupation and public housing, a majority of households have to seek their accommodations in the private housing market. As Hong Kong's policy on home ownership is by its nature inclined to minimum intervention, a large number of households, particularly the newly forming households, are unable to meet their housing needs. In such context, Hong Kong people often put the blame of inaccessibility to home ownership on developers who are believed to be capable of exerting a decisive influence on house prices and supply. Before addressing this issue, it is necessary to find out how property developers provide owner-occupied housing in Hong Kong. The next chapter will examine how the production of owner-occupied housing has been approached by researchers.

## CHAPTER THREE

### STUDYING HOUSING PROVISION

The significance of domestic property ownership in recent years has been the subject of widespread academic debate and political concern. In academic circles, many analyses of owner-occupied housing concentrate almost entirely on the consumption effects of housing. Their emphasis is not surprising because when looking at home ownership, the most obvious place to start is where the problems look most pressing and where they seem open to remedial action by the government. The most pressing housing problems concern the accessibility and affordability of home ownership. Yet, presenting housing problems in this way leads to the specification of a particular approach to looking at them. Ball (1983, p.13) labels this approach as 'the consumption-orientated approach to housing'. In this approach, there are two basic conceptual categories, households and the state; households have limited means by which to satisfy their housing needs, and the state has the power and the means to deny or satisfy those needs via its housing policies. The linkage between these two conceptual pillars is therefore the effect of state policies on households' consumption of housing. Housing provision, in this sense, is seen essentially as a distributional issue.

A 'demand-side' approach to understanding the origins of housing tenure assumes there is a symmetrical relationship between producers and consumers of housing. In a market situation, the relationship between producers and consumers is a reciprocal one (neither can function without the other), and both sides of the 'market' influence the actual outcome. But it should be emphasised that housing is structured in specific ways by the requirements of or constraints upon those agents and institutions concerned with the supply of housing, rather than the product of consumer choice or demand. This means that the key decisions about what form of housing is produced, where and for whom lie with housing producers — builders,



developers, landlords, financial intermediaries, housing departments, policy-makers, etc. — and not housing consumers. In other words, an understanding of housing provision should start with housing production, not housing consumption.

In this chapter, attempts will be made to clarify the different perspectives adopted by the 'supply-side' approach of housing in the mainstream literature. It first reviews the approaches of neo-classical economics, classical Marxism and urban political economy. This is followed by an illustration of an alternative approach that goes beyond Marxian political economy. Finally, it will explain how 'Structure of Housing Provision' (SHP) thesis in providing an important theoretical construct for examining the political economy of housing provision.

### **Neo-classical economics**

Put at its simplest terms, neo-classical economics views society as a collection of individuals whose nature is assumed to be given. The realisation of individual preference shapes the form of the economy and the nature of society. Put in an over-simplified fashion, neo-classical economics considers two sectors: households and firms. Households demand goods and services in the amounts and proportion that best satisfy their preferences, that is, they attempt to maximise their utility (or satisfaction). Firms supply goods and demand land, labour and capital in the amounts and proportion that maximise their factors of production — land, labour and capital. According to the marginal productivity theory, each of the three factors will be used until the cost is greater than the value they produce. The price of any factor is determined at the margin. Under equilibrium conditions, each of the factors will be paid according to their contribution to output.

Regarding the housing market, MacLennan (1982, p.36-37) identifies nine assumptions that neo-classical economists use:

- (a) There are many buyers and sellers.

- (b) In relation to the aggregate volume of transactions, the sales or purchases of each household are insignificant.
- (c) There is no collusion amongst or between buyers and sellers.
- (d) There is free entry into and exit from the market for both consumers and producers.
- (e) Consumers have continuous, transitive and established preferences over a wide range of alternative choices of housing and non-housing goods.
- (f) Consumers and producers possess both perfect knowledge with respect to prevailing prices and current bids and perfect foresight with respect to future prices and future bids.
- (g) Consumers maximise total utility whilst producers maximise total profits.
- (h) There are no artificial (non-price) restrictions placed on the demands for suppliers and prices of housing service and the resources used to produce housing service.
- (i) The market is assumed to be in equilibrium.

As a consequence of this framework and the particular emphasis on equilibrium conditions, neo-classical economists analyse the relative success and failure in providing housing based on economic calculation, with emphasis placed on efficiency and choice. As traditional economists normally view 'the market' as natural, pre-given and essentially unchanging and quite distinct from the rest of society, the invisible hand of the price mechanism — if left to itself — will efficiently and effortlessly organise production and exchange.

In an econometric study of the United Kingdom housing market, Whitehead (1974, p.59-60) argues that the housing market is **inherently imperfect**. However, she suggests that it is difficult to measure the nature and extent of such imperfections because purchasers routinely trade off different attributes of dwellings, such as size, type, location and price. She also points out that the supply of housing cannot increase rapidly because new building is usually only a small proportion of the total dwelling stock. Hence there are lags, especially



in supply. Finally, she reminds economists that governments intervene in housing markets in many ways, and that this should be taken into account when analysing housing.

Furthermore, Le Grand (1991, quoted in Barlow & Duncan 1994, p.24) finds that markets will normally be inefficient in three ways. First, 'production efficiency', where the production of a commodity at the minimum possible cost, is unlikely to be achieved and resources will be wasted. Second, 'allocative efficiency', where consumer wants are met as effectively as possible, will not be reached. Third, it is highly unlikely that 'dynamic efficiency', where firms and economies plan, innovate and develop for the maximum efficiency over the long term, can ever be possible in free market systems. Markets will be sub-optimal, and firms will survive through economic sense, hence, they are unlikely to be socially efficient in a wide social sense. For all these reasons, government intervention has been historically necessary to make markets work better.

The conventional economic approach is, therefore, unlikely to reflect the realities of housing provision. Conventional economics see a given, optimising and distinct market, but the reality is one of socially created, sub-optimal market institutions that are supported and maintained by organisational structures including government action. The best housing economists, such as Whitehead and MacLennan, are well aware of the limitations of neo-classical economists, and continually remind readers that economic analysis can only give a partial account of how consumers and producers actually behave in housing markets.

### **Classical Marxism**

In essence, Marx's theory is to explain the casual mechanisms that generate the structures of different modes of production and the capitalist mode of production in particular. These casual mechanisms are explored in terms of the interactions between certain theoretical entities that are themselves not directly observable (Basset & Short 1980, p.159).

In focusing on the economic structure of society, Marx rejects any approach that pictured individuals with given needs and preferences interacting only through the anonymous mechanisms of buying and selling in the market place. For Marx, human needs and preferences are historically contingent and cannot be given independently of the social and economic structure that shapes them. There are no objectively given economic laws that define relations between things (commodities, capital and labour, etc.) independent of the historically defined social relations that underlie them.

According to Marx, a capitalist economy is not so much a mechanism for maximising the private welfare of individuals generally as it is a means of facilitating the capitalist's appropriation of surplus-value and accumulation of capital. Using Marx's well-known formulas, Marx distinguishes capitalism instituting two relationships between production and consumption. The first one is the simple circulation of commodities, that is, an individual owns his or her labouring capacity but wants to buy housing, food and clothing; he or she sells labour (power) for a wage (money) and buys the things needed with it.

$C$  (labouring capacity)  $\rightarrow$   $M$  (wages in form of money)  $\rightarrow$   $C$  (means of consumption)

The second circuit reverses the terms of commodity circulation as previously stated. This reversal characterises the circuit of capital:

$$M \rightarrow C \rightarrow M'$$

Unlike the circulation of commodities, the circuit of capital has money rather than useful things as its objective. The capitalist advances money ( $M$ ) in the hope and expectation that his or her investment (capital) will return to him or her with a profit ( $M' - M$ ), which Marx terms the 'surplus-value'. For Marx, then, the market has two purposes to serve in a capitalist setting. It provides a mechanism for circulating commodities so that these commodities can find their way into the hands of those who need them ( $C - M - C$ ); and it provides a mechanism for using money to make money or accumulating capital ( $M - C - M'$ ).



In the process of capital accumulation, a definite mode of production is constituted out of a totality of relations of production. These relations of production correspond to the social positions in which individuals find themselves in the economy. At the simplest level of exposition, Marx identifies two social positions, or social classes, according to the condition of owning or not owning means of production, that is, the capitalists and the workers respectively. In other words, each mode of production is characterised by a dominant class using the means of production and ruling through the wealth and power that such ownership entails. In such context, the relations of production are ultimately class relations. In fact, the concept of class is central to Marxian theory.

For the role of the state, Marxists regard it as an instrument to help create the economic conditions for accumulation, and define and defend a social order including a set of 'rules of the game' for the pursuit of private interest. Within these rules, the interests of the dominant class are protected. As Marxists view housing as a commodity and a source of surplus value for a particular sector of industrial capital, Marxian housing analysts reconstitute the links between households and the state in housing provision. For instance, Engels rejects the notion that the provision of owner-occupied housing for the working class is to give workers economic independence and a stake in society, and ultimately promote social stability. Instead, Engels argues that home ownership would tie workers more firmly to particular factories and employers and reduce their bargaining strength, also the resulting lower housing costs would simply mean lower wages being paid by capitalists (Engels 1970, cited in Bassett & Short 1980, p.167). The state, who acts 'on the behalf of' the capitalist class, promotes home ownership, in one way helps to reproduce a stable capitalist society by encouraging conformity and respect for authority, the another way reduces the cost of reproducing a labour force. Thus, in essence, the Marxist researchers ignore the role of state intervention. They tend only to question the functions of state involvement in housing rather than criticising the means through which it is undertaken (Ball 1988, p.21).

## Urban political economy

While the 1960s saw a spate of interest in Marxism, the assumption that economic society is polarised into separate classes was under serious attack. During the 1970s, a new perspective emerged in urban studies that has come to be recognised generally as political economy.

Although the term political economy may have its origins in structural Marxism, it has come to have a much broader application. Many scholars whose works were originated from the critics of Marxist capitalism have become the mainstay of this new perspective. At the same time, many of those who in the 1970s operated within the Marxist paradigm have moved away from it during the 1980s, their work becoming a broadly derived mix of Marxist and non-Marxist elements. Consequently, political economy continues to refer to the work of Marxists. This has led to some confusion, especially for critics, as to precisely what is and what is not political economy and how it relates to Marxism.

The assumption that unites political economists in their approach to urban studies is the idea that the urban arena is a physical extension of market factors supplemented by government policy (the state). Political economy often also extends to consideration of other political forces in the city, including coalitions of influential elites and the collective actions of other citizens. Although it is difficult, given the diversity contained within the perspective<sup>1</sup>, Ilchman and Uphoff (1969) briefly summarised it:

Political economy may be described as the analysis of the consequences of political choices that statesmen (*sic*) and other persons make involving the polity's scarce resources. The political economist wants to know, 'Given the resources of the regime, now or potentially, what political choices are possible and what might be their cumulative effects' (p.26-27).

The study of political economy is as relevant to the choices made by revolutionaries as it is to those made by authorities, as relevant to the

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<sup>1</sup> In the book of *Theories of Political Economy*, Caporaso and Levine (1992) identifies 8 approaches to political economy. They are: classical, Marxian, neo-classical, Keynesian, economic, power-centred, state-centred and justice-centred.



choices made by various sectors of the population as it is to those made by the government itself, as relevant to choices aiming at political chaos as it is to those that seek to achieve political stability (p.29).

Applied to urban studies, political economy guides researchers to ask questions about the ways in which policy has articulated with economic forces to produce particular kinds of urban environments, with particular costs and benefits for different elements of the urban population, eliciting particular popular reactions from citizens. In general, it is an invitation to extend the use of broader ideas to examine the dominant political and economic structures of society (Flanagan 1993). Also, it recognizes the role of supply-side factors in contributing to metropolitan development (Gottdiener 1994).

Although the body of work that may be included within the political economy perspective is today undergoing challenges and revisions, it has come to constitute a major paradigm in housing research since 1980s. The following sections present an overview of the development of the political economy paradigm within housing, particularly its emphasis on housing provision. The review is roughly chronological, beginning with adaptations of Marxist theory, followed by an account of the movement away from Marxist ideas that have characterised the more recent work.

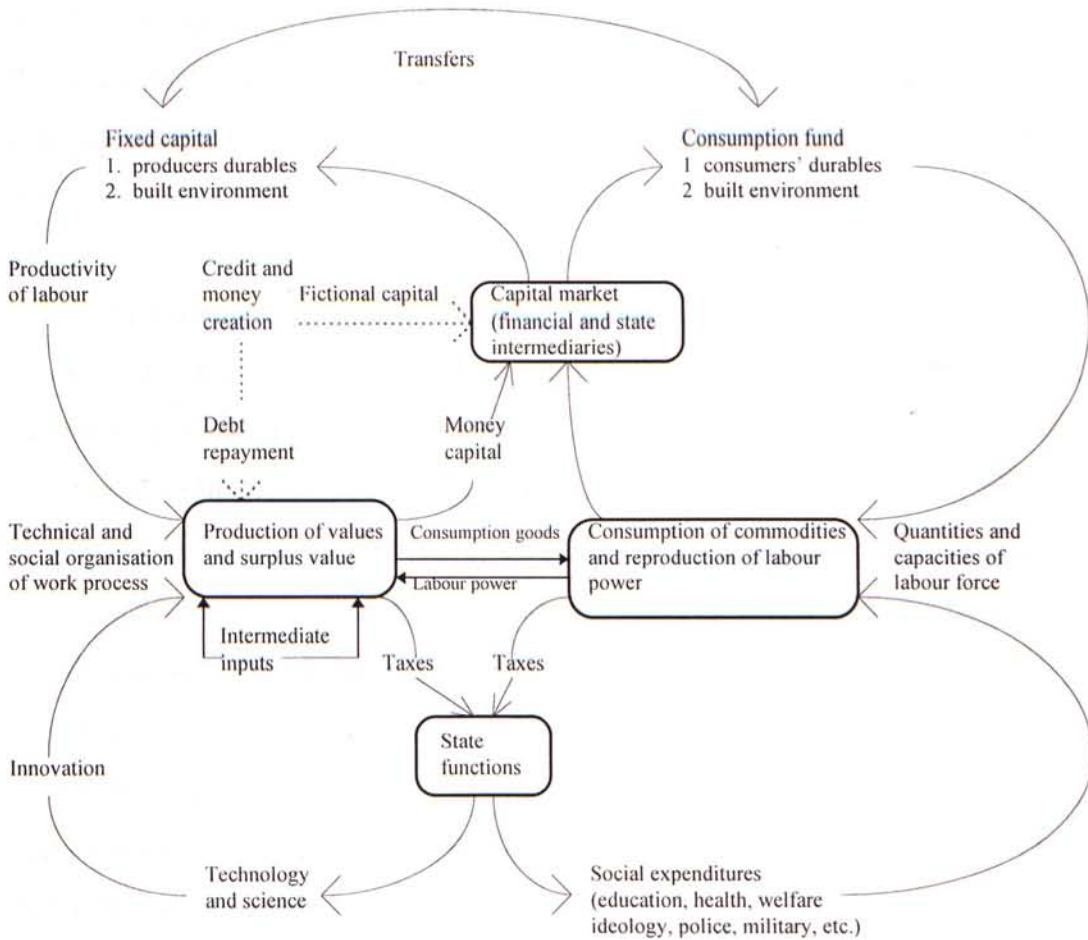
#### *Harvey's capital switching model*

In explaining the dominance of investment within the built environment<sup>2</sup>, undoubtedly, the most famous work among the Marxian political economists, is Harvey's capital switching model. The roots of Harvey's works can be traced to Henri Lefebvre (Harvey 1973, p.312-313; Soja 1989, p.94-102; Gottdiener 1994, p.183-194), who made a distinction between 'the real estate sector' (speculation, construction and real estate development) and 'the industrial sector' (production),

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<sup>2</sup> The built environment comprises all buildings, structures, and land forms that have been created for human use and appreciation.

and suggested that, in times of economic crisis, capital flows into the real estate sector. He also proposed a thesis that the real estate sector has supplanted the industrial sector in importance (Lefebvre 1972, quoted in Haila 1991, p.346).



**Figure 3.1** Harvey's capital switching model of the primary, secondary and tertiary circuits of capital.

Sources: Harvey (1978) and (1985b).

Harvey (1978) develops these ideas further and constructs a cyclical model of investment in the built environment. In Harvey's general model (Fig. 3.1), he recognises the tendency on the part of investors to divert funds from the production of commodities — the primary circuit of capital (the industrial sector) — when the profit rate falls. According to Harvey (1983, p.12), this tendency towards over-accumulation is invariably associated with over-production, the under-utilisation of plant or a downturn in consumption.



Harvey suggests that the logical response of investors to over-accumulation in the primary circuit is to switch capital into the secondary circuit of capital (the real estate sector) by converting the under-employed funds into capital asset such as factories, warehouses, shopping centres, or offices, or into the capital stock in which consumption is concentrated (i.e., housing and household equipment). Alternatively, surplus funds can also be switched into the tertiary circuit (research and development, skilling and re-training, social wages) as a way of improving future productivity or the quality of labour.

In turning to a consideration of the timing and spatial patterning of investment in the built environment, Harvey (1981, p.96-97) finds that the state is an investment coordinator between the circuits of capital. It not only acts as the agent of the ruling class, but also the partner of a particular fraction of the capitalist class — financial capital. The role of financial institutions is essential as it ensures that capital flows into city building and maintains its value. However, Harvey (1985b) stresses that although financial intermediaries are capable of successfully transferring funds from the primary to the secondary circuit in the normal course of events, the capitalist system is inherently crisis<sup>3</sup> prone, that is, the tendency of the rate of profit to fall; and it is this that ultimately dictates the rhythm of investment in the built environment.

Using historical data on construction activity, Harvey (*ibid.*) points out that the most significant surges of capital formation in cities tend to coincide historically with crises of over-accumulation and a falling profit rate in the primary circuit<sup>4</sup>. But once capital is switched into the secondary circuit, there is similarly 'pervasive tendency towards overinvestment and chronic overproduction' (p.12). The familiar symptoms of over-capitalisation in cities include excess residential

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<sup>3</sup> According to Harvey (1978), crisis can take a variety of forms including 'partial' (restricted to a particular sector, region or set of mediating institutions), 'switching' (capital re-adjusts by shifting between sectors, circuits or regions in pursuit of improved returns) or 'global' (where all sectors, circuits and regions are likely to be affected).

<sup>4</sup> The hypothesis that crises of capitalism were preceded by the massive of capital into investment in the built environment can be supported by statistics from the US economy between 1818 and 1925. These show that 'the peak in land values is reached 12 to 24 months before the economic

and commercial construction, rising building vacancies, and declining real estate prices.

In essence, Harvey accounts that the investment in the built environment is derived from 'forces emanating from the primary circuit of capital' (ibid., p.24), and the capital switching into the secondary circuit 'appears as a godsend for the absorption of surplus, overaccumulated capital' (1982, p.236). His over-emphasis on the circuit (or capital) switching is **dependent** upon conditions within the sphere of production inevitably invites a lot of criticism.

One main kind of criticism relates to Harvey's pre-occupation with economic determinants at the expense of 'political' or 'cultural' agents of urban transformation (Badcock 1992, p.218). King (1989a, p.451-452) observes that,

Although there is some emphasis on the role of mediating institutions in determining whether capital switching will be accomplished relatively smoothly or alternatively in the course of a crisis, there is little room in the theory for the role of individual agency, non even for consideration of how mediating institutions came about in the first place.

It is increasingly recognised that financial capital, rather than industrial capital, dominates within late capitalism (Beauregard 1994, p.719). For instance, Feagin's (1987) study of the office-building construction in Houston, Texas in the 1980s found that the source of development capital was not the oil industry but finance capital: large banks outside of Houston, Houston-based banks that served as conduits for local and external capital, real-estate syndicates, and foreign investors. This led him to conclude that the fixed-capital real-estate sector was 'a major outlet for surplus capital of **all types**' (p.187, emphasis added).

Thus, in contrast to interpretations of Harvey's original thesis, it becomes apparent that the secondary sector has a distinctive dynamic that is strongly

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recession ... The peaks in the building cycle **follow** the peaks in land values and **precede** general economic recessions' (Harrison 1983, cited by Haila 1991, footnote 3).



influenced by changes in financial markets (Beauregard 1994; Fainstein 1994). Investment in the built environment reflects the extent to which property has both a use value and an exchange value. Indeed the distinction between the occupier and investor markets is largely based on this duality. However, this relationship is not static: 'during boom periods of the property cycle the exchange value of all types of property asserts itself as an increasing tendency on the part of residential occupiers to move and of financial investors to trade' (Coakley 1994, p.699).

In sum, the writings of Beauregard (1994), Feagin (1987), King (1989a, 1989b, 1989c) and Haila (1991) confirm that the secondary circuit is not simply the 'safety valve' of the primary circuit. In addition, these scholars suggest that primary-circuit capital may not switch to the secondary circuit but may seek other outlets: stock speculation, overseas markets, government bonds, or the tertiary sector. Even Harvey's later works (e.g., 1989)<sup>5</sup> have acknowledged the social, political and cultural forces can influence the production of the built environment.

### *The housing system*

While the urban political economists in the United States followed the Marxist structuralist tradition in urban studies, a group of researchers at Birmingham University's Centre for Urban and Regional Studies developed the concept of the housing system in the early 1970s. This approach in political economy had expanded to incorporate an ever greater emphasis on the role of the state and public policy. The development of this new perspective merely reflected the uniqueness

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<sup>5</sup> In his book, *The Condition of Postmodernity*, rather than characterising capital switching as a 'safety valve' functioning to avert capitalist crises, Harvey argues that the shift of capitalism to flexible accumulation and away from Fordist forms of mass production is unique in its privileging of the financial circuit. 'The new financial systems put into place since 1972 have changed the balance of forces at work in global capitalism, giving much more autonomy to the banking and financial system relative to corporate, state, and personal finance' (1989, p.164). The search for profitable investment opportunities outside the sphere of production, then, is not a temporary response to over-accumulation, but a new strategy to combat tendencies to a falling rate of profit. In addition, financial circuits have become less dependent on the production sphere: 'the financial system has achieved a degree of autonomy from real production unprecedented in capitalism's history' (p.194). Thus, by his recognition of financial intermediaries and derivative claims of an autonomous secondary circuit, he establishes a case for the cyclical behaviour of construction investment to occur **independently** of conditions in the primary circuit.

of Britain, where governments have played a much larger direct role in housing provision than that in the United States or Australia.

Murie, Niner and Watson (1976) elaborated the concept of the housing system in their book, *Housing Policy and Housing System*, and used this idea to organise a subsequent program of research. Their work commenced with a series of studies of various aspects of housing; but they saw a need to place these studies within a systematic analytic framework, especially focusing on 'the **relationship** between dwellings and households' (xvii, emphasis in the original).

They proposed that housing should be conceptualised in terms of a 'system' made up of various parts and of regular relationships and **interactions** between these constitute parts. In the housing system, there are seven components: consumers, dwellings, producers, exchange professionals, financial institutions, investors, governments, and statutory authorities. Also, four kinds of relationships between its constituent parts can be identified:

- (a) legal relations - the legal relationships between people (or companies) and their rights in dwellings;
- (b) market relations - the relationships between individuals and corporate organisations, including governments, as buyers and sellers of housing (or housing services);
- (c) power relations - the relationships that exist in many forms, for example, between members of a household, between landlords and tenants, or between citizens and the state; and
- (d) social relations - the relationships between various parts in satisfying the 'wants' of individuals in domestic, familial and even cultural phenomena.

Also, they emphasised that the housing system is the **outcome** of many interacting variables and relationships. In addition, they argued that the concept of housing system is particularly useful for the analysis of housing,



First, just as the different 'parts' of the housing system are linked, with the emphasis falling on interrelationships, so 'housing' too must be seen within a framework of wider relationships. Housing matters can never be seen in isolation. Second, the importance of interconnections within the system emphasises the dangers of a situation where the major institutions of control are distinct and largely independent bodies, each operating in part of the system only. Finally, the importance of linkages helps to explain why policies introduced for specific purposes have side effects which are often unforeseen (p.249).

Indeed, Kendig and Paris (1987), in their discussion of housing in Australia by using the concept of the housing system, find that the housing system can be considered as a 'secondary phenomenon' because 'the kinds of dwellings, housing tenures and costs are largely influenced by wider processes of social and economic change' (p.9).

However, the housing system approach has some problems (Paris 1993, p.31). First, it can easily become descriptive and static because it does not contain any assumptions or arguments, either about the development of housing systems or their likely directions of change. Second, the definition of the 'parts' of a housing system is essentially arbitrary. The nature of the parts and their relationships may vary enormously between countries and over time, and thus there are limits to the use of this approach for comparative analysis. Third, Murie, Niner and Watson's idea of the housing system had an almost exclusive focus on consumption (including access to and distribution) of housing. They had little to say about either housing production or investment on housing provision. Finally, they focused heavily on government policies, and under-emphasised the continuing importance of market relations within housing provision.

In sum, the housing system approach can perhaps best be considered as a 'system approach' to housing. It is a non-theoretical concept because it neither specifies the nature of the parts nor the factors influencing relationships. But, despite such shortcomings, it widens the scope of study by focusing housing within contemporary societies. It draws our attention to a range of phenomena in

interaction, and requires further specification of the nature of those elements and that interaction.

*Kemeny's cultural explanation in housing provision*

In using the concept of housing system, Kemeny attempts to provide a theoretical basis for explaining the variations in the provision of owner-occupied housing in western and Scandinavian countries. First, Kemeny (1981) carried out a comparative analysis of home ownership in Australia, Britain and Sweden. He focused on the different ways in which home ownership have been 'sponsored' by governments. He distinguished that Australia has a mono-tenurial housing system with only home ownership is the major form of housing. Sweden has a dualist system with equal importance of social<sup>6</sup> and private housing. Britain is floating between these two extremes.

Later, Kemeny (1992) explained that such divergence in the means of housing provision is the result of the different forms of social structure in these countries (p.113). He distinguished that the United States and Australia represent examples of highly privatised social structures, while Sweden, The Netherlands, West Germany and the former state socialist societies of Eastern Europe represent examples of societies with varying high degrees of collectivism. In between these lie a large number of societies, like Britain, which combine collectivist and privatist elements in various proportions and which fall somewhere between these two forms.

In Sweden, a society of a high degree of collectivism, a well-developed welfare state is formed resulting in a highly developed collective transport based on a high density urban form derived from a dominance of rental and co-operative flats. The public and private rented sectors are integrated, with public rental housing being the lead element, and are allowed to compete with owner

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<sup>6</sup> Social housing refers broadly to all housing directly subsidised by governments or institutions, but including conventional public housing (Bourne 1981, p.215).



occupation. By contrast, in Australia, there has evolved a high degree of privatisation, as reflected in a poorly developed welfare state, low residential densities deriving from privatised dwelling type and housing tenure. In such context, private and public rented housings are distinct, and the public sector is prevented from competing effectively with owner occupation. This leads to a residual public sector centring largely for the poorest of the population. Britain represents an intermediate form of social organisation, with a welfare state more developed than Australia but less so than Sweden, more social housing than Australia but less than Sweden, predominantly semi-detached and terraced housing rather than either freestanding villas as in Australia or apartments as in Sweden. Thus, it is the culture and political choices that are the major influences on the form of housing system (Kemeny 1995).

In essence, Kemeny recognises that the means of provision — the context and organisation of housing tenures — is socially constructed, and can be seen in each country to be the product of a specific inter-relationship of political, economic and ideological factors (Harloe & Martens 1984, p.266). However, Kemeny, like other housing analysts, has focused too much on the role of state in distribution of housing, thus paying insufficient attention to the ways in which it is produced. In addition, the emphasis on political choice leads to a tendency to exaggerate the extent to which political actors have a clear goal in mind. Clapman's (1995) analysis of the East European housing systems shows that decisions have often been made primarily for pragmatic, short-term reasons such as the desire to control state expenditures (p.693). Also, Ball (1982) comments that,

Kemeny sees tenures as immutable in terms of their finance and their effects. Yet tenure is only an aspect of the social relations in forms of housing provision. Distinct types of finance, construction and land acquisition, for example, are found associated with different tenures and these combinations vary between countries. Moreover, the place of these tenure-related forms of provision within the wider social structure varies over time and also between countries. Surely, such developments and inter-country differences must be central to an analysis of the growth of specific tenures in different countries (p.293).

So, Kemeny's study seems to suffer a theoretical inadequacy that merely classifies housing systems in terms of three distinct and neatly defined 'types' of the state. Yet, in theory, this political economy approach of housing accepts the structural determination of inequality, and involves the examination of the ways in which capitalist accumulation differentially structures market developments and policies according to specific national histories of class struggle. Also, by focusing housing as a commodity **and** a basic means of reproduction rejects the myth of the 'benevolent state' (Harloe & Martens 1984, p.267, emphasis in original). Such a perspective should be able to provide analyses of housing policy which are more penetrating than most of those which have appeared so far and which do not ultimately resort to 'explaining' housing provision on a purely form of radical functionalism, that is, the development of housing market and of housing policies is only in the interest of capital.

### **Beyond Marxian political economy**

While there has been a growing amount of work that focus on the interaction between housing development and state agencies in Europe, particularly in the United Kingdom, a new paradigm is emerging in North America. There is a growing movement towards a more humanistic theory of social change where the ideas of individuals, collective sentiments and deliberate action play a greater role. The most important figure in introducing this new theory and drawing political economists' attention away from structural interpretations is Anthony Giddens, the formulator of **structuration theory**.

Structuration theory addresses the way in which everyday social practices are structured across space and time. It accepts and elaborates Karl Marx's famous dictum that human beings 'make history, but not in circumstances of their own choosing' (Knox 1995, p.218-219). Given that, Giddens (1984) argues for a relational approach between structure and agency in which 'structure' is established by the way agents operate: deploying, acknowledging, challenging and potentially transforming resources, rules and ideas as they frame and pursue their



own strategies. Structure, in terms of the framework within which individual agents make their choices, may be seen to inhere in the various **resources** to which agents may have access, the **rules** that they consider govern their behaviour and the **ideas** that they draw upon in developing their strategies. In everyday language, this new theory means that the qualities of society and the individuals that comprise of continuously inter-penetrate and give shape to one another.

Returning to the housing provision, fractions of financial, industrial and commercial capital all combine with the state to provide an organised structure for the property sector. In this structure, there are various agents interact in the property market. Thus, the critical task for the housing analyst seeking to understand the process of production of housing is *'an examination of how [such structure] is reflected in and affected by the way individual agents determine their strategies and conduct their relationships as they deal with specific projects and issues, and as they consider their future stream of activities'* (Healey & Barrett 1990, p.90, italics original).

In terms of research strategies, Healey and Barrett (ibid., p.93-94) suggest a new framework to combine the insights derived from the traditions of institution analysis<sup>7</sup>, with the neo-classical analyses of the operation of urban land markets and Marxist approaches to the way capital flows through the built environment. So, the research should emphasise on:

- (a) the **resources** for development, as channelled via the financial system and the inter-relation of supply and demand;
- (b) the politico-juridical **rules** that limit the construction of development opportunities; and
- (c) the **ideas and values** people hold about what they should build, what they would like to occupy and what kind of an environment they seek.

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<sup>7</sup> Institution analysis concentrates on the way individual firms and agents inter-relate in the negotiation of particular development projects and how, through these transactions, land and property 'markets' are constituted and built environment investment decisions made. The institution research also draws attention to the complex interplay between structural **driving forces**

To summarise, Giddens' structuration theory and Healey and Barrett's interpretations draw our attention to the production of the built environment is not only the result of social, economic and political processes, but also the consumer demand for and investment returns from land and property development can be translated into supply, with the various agencies involved in directing and realising the strategies of many of the agents involved. Also, all human actors, even the most powerful, are constrained by the social, economic and political rules, roles and institutions in which they find themselves. Thus, in the real world,

[the] built environment is the result of conflicts, in the past and present, between those with different degrees of power in society — landowners, planners, developers, estate agents, local authorities, pressure groups of all kinds, insurance companies, and so on. As the balance of power changes and ideologies rise and fall so the built environment is affected. It is a continuing situation, with the past constraining the present and together binding and limiting the future (Pahl 1975, p.151).

In understanding such a wide spectrum of interactions between structure and agents, Ball has suggested a tool to look at how housing is produced, via the interests and strategies of agents and the rules and resources upon which they draw, to the dynamics of the wider structure of economic and political organisation that these practices both constitute and reflect. The following section therefore illustrates Ball's 'Structures of Housing Provision' (SHP) thesis.

### **Structures of housing provision**

The concept of SHP was developed out of debates from within political economy perspectives on housing. In his book, *Housing Policy and Economic Power: The Political Economy of Owner-occupation*, Ball (1983) specifically formulated the idea of SHP to get away from consumption-oriented analysis of housing, especially regarding owner-occupation,

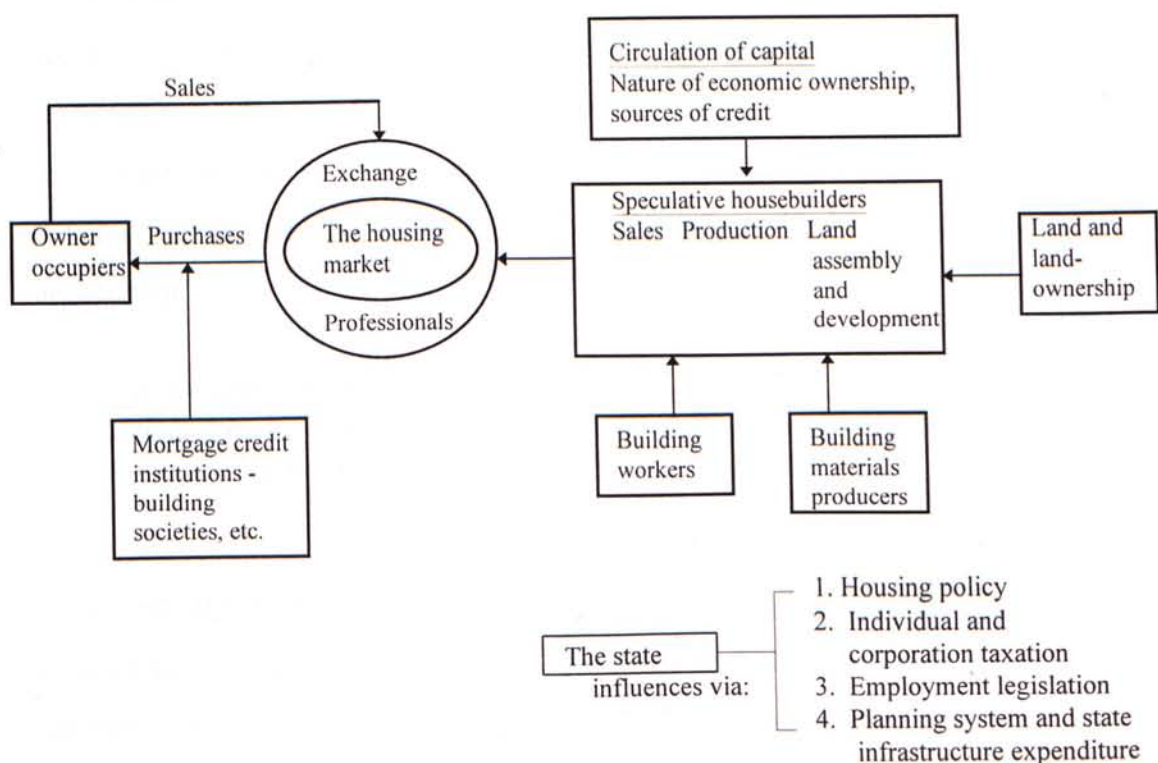
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that shape individual behaviour and the **strategies and interests of individual agents** engaged in development activity (Healey 1992).



Instead ... of simply being one way in which housing may be consumed, owner occupation has become associated with a particular way in which housing is provided; and with all the forms of land ownership, building, finance and market exchange that exist there. There is consequently a particular set of social relations involved in the current structure of owner-occupied provision (p.17).

Ball also argued that there are varying SHPs between countries. He explained that SHP is 'a historically given process of providing and reproducing the physical entity housing: focusing on the social agents essential to that process and the relations between them' (1986, p.158). So the research primacy of the SHP approach is given to social agents who dominate housing provision and their dynamic inter-relationship in a historically evolving structure. The agents consist of those involved in consuming and providing owner-occupied housing: the owner-occupiers themselves, the building societies, estate agents, housebuilding firms, building workers, planners, landowners and yet others participating in the construction and selling of owner-occupied housing. The immediate relations between them are schematically described in Figure 3.2.



**Figure 3.2** The structure of owner-occupied housing provision in Britain.

Source: Ball (1983) Figure 1.2.

Later, together with his co-authors, Ball subsequently developed a more general definition of the concept of SHP, which moved away from his earlier focus on tenure-specific structures,

A structure of housing provision encompasses the interrelations between all the agencies involved in the production, exchange, finance and consumption of housing in a particular way. Generally they are related to particular tenures, although tenures can be associated with more than one structure of provision. Each housing tenure in a country has a structure of provision (or more than one) which differs from that of other countries, to a greater or lesser extent. International variations in forms of provision help to explain the different experiences of housing tenures and why they have developed in different ways (Ball, Harloe & Martens 1988, p.5).

This approach provides a broad organisational perspective on housing within which issues of production and consumption can be analysed. It incorporates an awareness of both structural relations and of change within structures. In fact, one of the features of the SHP approach is that it suggests that SHPs embody tensions leading to change (Yoon 1994, p.10). It is commonly believed that wider social, economic and political processes outside the housing sphere (e.g., demographic factors, class struggle and social conflicts, and so on) can force SHPs to change. But, it is the internal dynamics of social agents in SHPs (e.g., contradictions between builders and building workers, between builders and developers, between state and developers, and so on) can lead to the change. Ball argued that,

it is contradictions arising from struggles between social agents operating in these spheres (production, exchange and consumption) that are the motor of change (1986, p.162).

So, the SHP approach is very concerned in identifying the historically specific factors that determine what makes SHPs as they are and what causes the changes. As the context in which housing is produced, exchanged and consumed varies between countries, and so SHPs are 'nationally (or in some cases, locally)



specific' (Harloe 1988b, p.199). The variety of the context leads Ball to a conclusion on owner-occupation that,

owner occupation is a historical product of a series of struggles between unique but changing sets of social agents. No country has the same constellation of financiers, builders, landowners, owner occupiers, housing markets, exchange professionals, and others associated with owner occupation. What owner occupation means, not surprisingly, varies considerably between different countries (1986, p.157).

Also, the emphasis on the external and internal pressures on SHPs creating changes does not mean that contexts and scale of the pressures are same in every society. They are different between times and between places. Therefore, the concept of SHPs is empirical and descriptive, like the idea of housing system, rather than deriving from theoretical propositions about relationships within any definite structure,

Actual structure of provision ... are empirical constructs and cannot be theoretically deduced, although obviously theory has to be applied in their analysis (Ball 1988, p.29).

### *Criticisms of the SHP thesis*

Criticisms of the SHP thesis have centred on a perceived housing production bias. Kemeny (1987) argued that the 'supply side' political economy of housing is a useful additional component of housing analysis, but new building only comprises a small part of the total stock in most countries. Thus, he suggested a need for more, rather than less, work on housing consumption, but that what was needed was 'theorised consumption analysis' and the integration of consumption and production within a coherent theoretical framework (p.253). So, Kemeny (1992) labelled SHP thesis is a non-statist and under-theorised perspective.

In some ways, this criticism is surprising. Indeed, Ball (1986) has strongly disclaimed in the first place that SHPs are not production-orientated perspectives in

which housing issues are reduced to production problems. The 'provision' in SHPs encompasses production, exchange and consumption altogether. Also, SHPs are not meant to be viewed as a part of a comprehensive theory of housing. Given the complex social, economic and political milieu in which housing is situated, any theory of housing is likely to promote a totalising discourse (Murphy 1995, p.138). Rather, SHP is 'an operational theoretical concept that is of use in empirical research' (Ball & Harloe 1992, p.9). The approach 'gives research primacy to the institutions and agencies active in a particular way of providing housing and the dynamic interrelationships between them by asserting that unless research is aware of their inter-relation false conclusions may be easily reached' (ibid., p.7). Hence, SHPs are a middle-order concept that may be used to bring a wider political-economy perspective to bear on a specific system, without recourse to overt functionalism (Murphy 1995, p.138).

Support for this perspective is growing. Gore and Nicholson (1991) believe that the 'SHP approach promises much richer insights into the variety and complexity of the [housing] development industry' (p.726). Barlow (1993) claims that 'an understanding of the SHP also allows a better integration of speculative risk-taking behaviour as it emphasises the strategies of the various parties (landowners, developers, owner-occupiers and so on) involved in the development process' (p.1130). Knox (1993) suggests a broader perspective in which 'design professionals, construction workers, ... consumers' are important elements within any SHP. Knox also stresses (p.9) the role of the state 'as an important agent in its own right and as a site of conflict or cooperation between other agents'. In assessing the perspective, Paris (1993) regards the approach as,

a useful, not overarching, conceptual device. Its primary aim is to enable a focus on housing without fetishising one or other aspect of it. Neither 'production', nor 'consumption' stand alone, and housing is both part of wider social relations and a constituent element of them (p.37).



## Conclusion

Clearly, there is no unified 'theory of housing'. This review of different approaches in housing provision, however, has indicated some ways in which a coherent framework can be developed to examine the diverse range of factors, processes and relationships affecting the ways housing is produced in a particular social, economic and political situation.

The preferred approach adopted in this study incorporates aspects of different approaches discussed above: the neo-classical economics emphasis on commodity relations and transaction; the Marxian political economy focus on housing development as a means of capital accumulation; the housing system focus on actors and relationships; Kemeny's focus on the state and its cultural ideology; Giddens' emphasis on the interaction between structure and agencies; and the SHP focus on how housing is produced. The SHP approach, finally, provides a coherent analytical framework in which all the different perspectives can be integrated to determine how structure and agents, and agents within the structure interact with each other. The next chapter will illustrate how the SHP can be used in this study to examine the ways property developers behave and also clarify the extent to which particular local developers affect structure and performance of home ownership in Hong Kong.

## CHAPTER FOUR

### HONG KONG PROPERTY DEVELOPERS

The previous chapter illustrates the benefits of using the concept of the 'Structures of housing provision' (SHP) in addressing the interrelationships within the housing market that determine the outcomes of housing provision. This chapter examines how this concept can be adopted in this study. It also describes who are the property developers in Hong Kong and their characteristics.

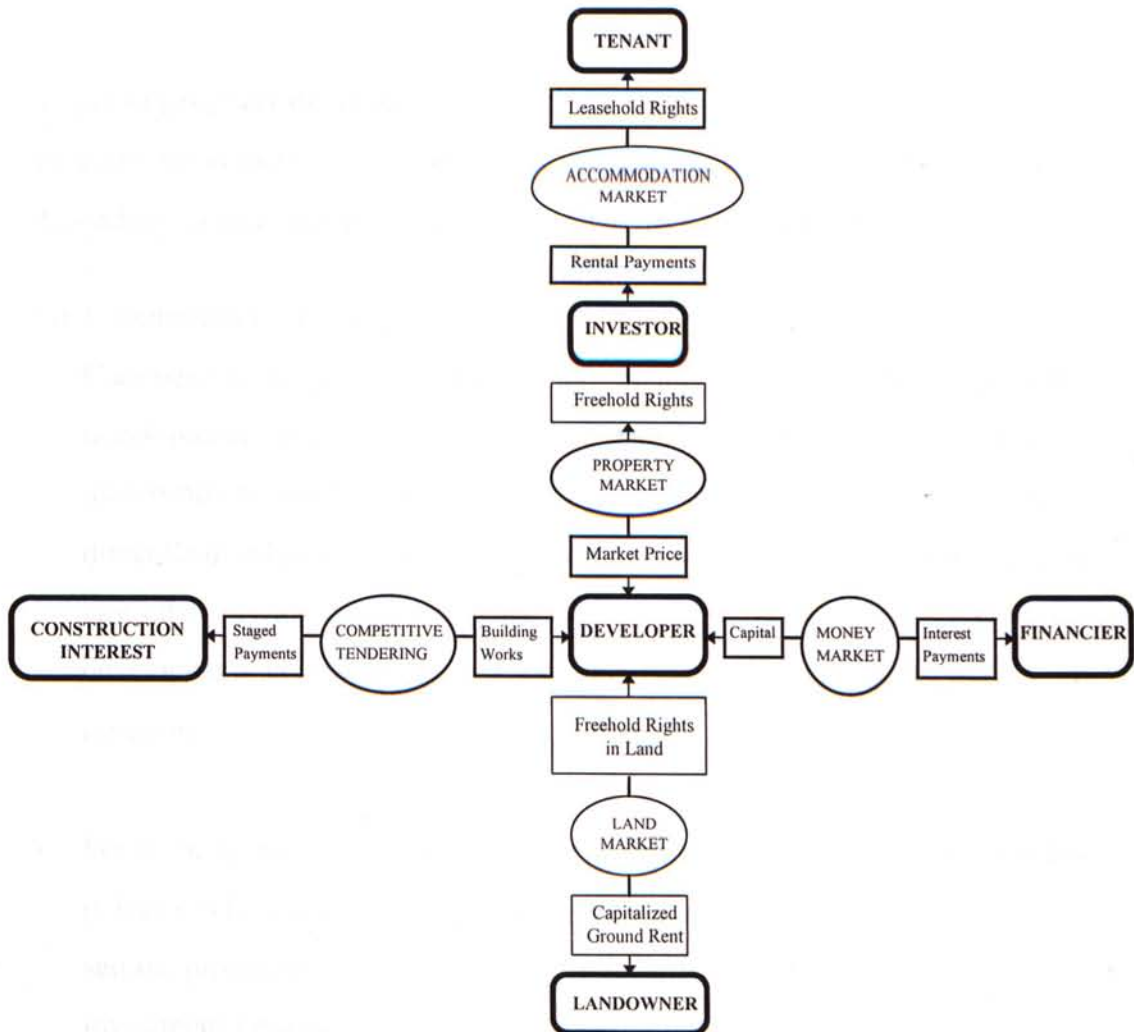
#### **Roles of property developers**

In simplified terms, three main types of agents — developers, investors and users — play a central role in the property development process, though other agents such as planning authorities and landowners will also play a part. Yet, the profits to be made from property development give developers a strong incentive to assert themselves as key actors at the centre of structures of building provision, or in residential development, the centre of the SHP. This incentive is intensified by their interest in the speed of operation because they have to finance land preparation and construction long before receiving income from the sale of completed projects. Figure 4.1 shows the role of property developers is pivotal:

It is the developers who initiate the development process — by recognising an opportunity to profit from a perceived demand for certain types of building in particular locations. They negotiate with landowners for the acquisition of development rights to sites, either purchasing a freehold or leasehold interests in the property or entering into joint development agreements to share development profits with the site owner. It is the developers who arrange the short-term financing for construction. They commission architects to devise a scheme, within certain cost constraints, which will be acceptable to the planning authorities. It is also they who engage the builders and use estate agents to seek suitable tenants or purchasers for the completed development ... developers might appropriately be



regarded as the impresarios of the built environment (MacLaran 1993, quoted in Knox 1995, p.132).



**Figure 4.1** The role of property developers in the property development process.  
Source: Knox (1995) Fig. 4.7.

Thus, developers are placed in the interface between the cycle of production and the cycle of consumption of a dwelling<sup>1</sup> (Cardoso & Short 1983, p.923). They have commonly cast themselves as the conceptualisers, organisers

<sup>1</sup> In the life time of a dwelling, it is possible to differentiate 2 cycles: the cycle of production and the cycle of consumption. The cycle of production of a dwelling spans from the beginning of the construction process until the dwelling is sold. The cycle of consumption includes the successive exchanges and progressive consumption of the dwelling. The cycles are interrelated, but separate to the extent that the processes and agents involved in the 2 cycles are different (Cardoso & Short 1983, p.920-921).

and supervisors of real estate development projects. Their principal concern is to enhance either the use value or the exchange value of the land and buildings.

### **Types of property developers**

Property developers can be further sub-divided into the following categories depending on their different objectives, preferences and styles of dealings:

#### **(a) Commercial property developers**

Commercial property developers are mainly in the form of property development companies, which are in a variety of forms and sizes from one-man-bands to multinationals. Their purpose is usually clear-cut: to make a direct financial profit from the process of development—in the same way that any other private sector company operates. The main difference between development companies is whether they operate primarily as traders or investors.

For property trading companies, they treat the business as a production process (Chan 1987), that is, they purchase materials, produce the product and finally sell the product to the customers. They seldom keep properties for long-term investment because they have to maintain a high cash flow to facilitate their production process. They usually maintain a large volume of land as stock, and invest in properties with less fluctuation, both in terms of demand and price, that is, they invest in relatively lower-end products. As they do not have the capital resources, they sell their products as quickly as they can so that they can maintain a high cash flow and re-invest in land. Their product strategy is to build up up-to-standard quality building and never search for excellence. Also, they spend relatively little effort on building management and maintenance. This is especially true for private individual developers and small property development companies. Overall, their revenue is less influenced by market performance because their products are lower-end. They



tend to buy land at low price and keep the development cost down so that they will be more competitive in the market.

At the other end of the scale, there are large development companies — in term of capital assets — which do hardly any new development at all. For these property investment companies, the return on investment is equal to the rental received for their properties on the amount invested. They plan for longer term, such as the economic performance of the economy, the growth potential of the project, and the demographic changes for local living quarter and industries, etc. They concentrate their investment in prime locations, and pay special attention to building design, facilities, layout and the environment. They spend much more effort in building management and maintenance to maintain the value of the properties. Since they build high quality buildings, the initial yield to companies is low, therefore, only large companies can afford this low initial earning. This is especially true in a declining market. Overall, their revenue depends on the performance of the market. They are content to manage their portfolio and undertake only refurbishment and re-development work.

In residential development, developers operate almost solely as traders as the market is heavily biased towards owner occupation. Usually, many developers in the decade after World War II started as relatively small entrepreneurs and used early profits to move into one land enterprise after another. Even today, the real estate entrepreneur has frequently been seen as the crucial risk taker, the one who seeks to invest and re-invest in new business enterprises. However, in recent decades, as is true with many other sectors of the advanced economy, even the most visible entrepreneurs have developed large-scale development companies, the bureaucratised operation has come to dominate in real estate development.

(b) Public sector development agencies

In most countries, either in capitalist or socialist countries, the public sector is actively involved in direct development. It is mainly in the form of quasi-development companies and often funded by the government in providing affordable owner-occupied housing units to low-to-middle income households. These property agencies are normally identified as a non-profit making body, whose production depends upon allocation of adequate housing lands by the government.

(c) Institutions

Building societies, educational and religious bodies are all examples of this category. They are usually the future end-users of the new buildings, and profit-making is, in these cases, not exactly relevant. For this reason, demand for developments of this type tend to be very stable, and are least affected by the ups and downs of the property market.

In Hong Kong, it is obvious that its property market is dominated by the first type. The Hong Kong commercial property companies are usually specialised entrepreneurs whose differences are based largely on management, that is, the Chinese and non-Chinese styles. These large developers have come to represent a powerful lobby: so powerful, in fact, that they have been able to shape the nature of many of the government programmes affecting housing and urban development. In such context, it poses challenging problems in finding empirical data using the concept of the SHP as a research tool.

### **The research agenda**

In Chapter 3 it has been argued that the provision of owner-occupied housing may fruitfully be approached by adopting SHP and linking this to various theories to explain the relation between developers and structure of Hong Kong housing



market. This emphasises the inter-relation between the two, rather than a deterministic relation between structure and agency. Given the researcher's available resources and short time-frame, four interesting themes are centred in this study: the first addresses the relation between the developers as a whole and investment in land and development processes; the second explores the way the resources and rules of economic organisation constitute the types and strategies of developers involved in land and property development processes; the third assesses the way Hong Kong government structures the land and property development process through its contribution to the constitution of rules and resources; and the fourth evaluates the outcomes of these processes.

Clearly, research under such an agenda raises problems of research methods and data sources. It involves arenas where many powerful actors operate, where secretive strategies are part of the battle for competitive success, where data are scarce and produced in ways that are often difficult to penetrate, and where publicly available documentation and public talk are often deliberately distorted for the purposes of competitive advantage. Nevertheless, there is a range of source materials that can be used.

In this study, the major source of data was from housing and construction statistics, either from public and private agencies; land registers; reviews by the major property companies and real estate firms; the property press; company reports; unpublished dissertations; and published biographies on Chinese property tycoons. Also, a limited number of interviews were conducted with selected individuals who were actively involved in housing market in Hong Kong. A complete list of people consulted is given in Appendix I.

The aim of these interviews was focused on the people's experience on Hong Kong housing market. They also provided their views of how owner-occupied housing was provided, the problems and issues relating to the development process, and many insights into how the housing market works.

Partially structured interviews<sup>2</sup> were carried out over two intervals from May to August and November to December 1997. Thirteen individuals were interviewed. The time taken for each interview varied between thirty minutes and one hour. These interviews were not tape-recorded, but main points of discussion were recorded.

A number of constraints imposed limitations on the selection of individuals to be interviewed, and these were: the limited time-frame for the research project and the small group of people willing to be consulted. Because of these difficulties, a methodological awareness of the problems involved is a prerequisite for interpreting the results of this study. Clearly, no one piece of research could address the above agenda. What is important, however, is that this study should increase our understanding of contemporary processes of the production and transformation of the structure of owner-occupied housing in Hong Kong. More specifically, this study should add to our understanding of the roles of developers and the Government in the housing development process. Yet, before tackling these two issues, the next section will first describe the historical development of Hong Kong property developers and their characteristics.

### **Historical development of Hong Kong property developers**

The existence of a property development industry is a relatively recent phenomenon. Before the Second World War, there were very few large property companies. Instead, development was undertaken by individual businessmen or by firms developing buildings for their own occupation. According to records from the Hong Kong Registry, there were only two registered property companies in 1900s (Feng 1996, p.51). One of them was the Hong Kong Land.

After the war, the situation changed rapidly. Property development companies proliferated along with the growth of the Hong Kong economy.

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<sup>2</sup> In partially structured interviews, areas are chosen and questions are formulated but order is up to interviewer, and interviewer may add questions or modify them as deemed appropriate. Questions are open-ended, and responses are recorded nearly verbatim, possibly taped.



Currently, there are about 4,000 property development companies in Hong Kong (Yang 1993, p.359), of which 103 developers are listed on the Hong Kong Stock Exchange. Within these listed companies, the ten largest are Henderson, Hopewell, Sino, Swire, Wharf, Cheung Kong, Hang Lung, New World, Hong Kong Land and Sun Hung Kai. They accounted for 70 per cent of the total market capitalisation of the construction and development sector in the 1980s (Table 4.1).

**Table 4.1** Top ten listed property companies and their market capitalisation.

Companies	Source of capital #	12/1979 Market capitalisation \$ billion	Companies	Source of capital #	7/1983 Market capitalisation \$ billion
The Hong Kong Land Ltd.	B	7.3	The Hong Kong Land Ltd.	B	9.2
New World Development Co. Ltd.	C	3.2	Swire Properties Ltd.	B	4.0
Cheung Kong (Holdings) Ltd.	C	2.8	Cheung Kong (Holdings) Ltd.	C	3.7
Sun Hung Kei Properties Ltd.	C	2.8	Sino Land.	O	3.4
Swire Properties Ltd.	B	1.9	Sun Hung Kei Properties Ltd.	C	3.4
Hopewell	C	1.2	New World Development Co. Ltd.	C	3.1
Hang Lung Development Co. Ltd.	C	1.1	International City	-	2.2
Tai Cheong	C	1.0	Henderson Land Development Co. Ltd.	C	1.8
Hutchison*	B	0.8	Hysan Development Co. Ltd.	C	1.6
Mei Hong Enterprises Ltd.	-	0.9	Hopewell	C	1.2
<b>Total</b>		<b>22.95</b>	<b>Total</b>		<b>33.40</b>
<b>Total as % of construction and development capitalisation value</b>		<b>72.62%</b>			<b>71.00%</b>
<b>Total as % of overall stock market capitalisation</b>		<b>20.34%</b>			<b>18.78%</b>

Companies	Source of capital #	5/1988 Market capitalisation \$ billion	Companies	Source of capital #	5/1993 Market capitalisation \$ billion
The Hong Kong Land Ltd.	B	18.9	Sun Hung Kei Properties Ltd.	C	75.8
Cheung Kong (Holdings) Ltd.	C	16.0	Cheung Kong (Holdings) Ltd.	C	62.4
Sun Hung Kei Properties Ltd.	C	15.7	Wharf (Holdings) Ltd.	C	45.4
New World Development Co. Ltd.	C	12.1	The Hong Kong Land Ltd.	B	43.8
Wharf (Holdings) Ltd.	C	11.8	Henderson Land Development Co. Ltd.	C	37.8
Kai Wang International	C	8.9	New World Development Co. Ltd.	C	35.4
Henderson Land Development Co. Ltd.	C	8.1	Hopewell	C	22.8
New City	C	6.9	Amoy Properties Ltd.	C	18.8
Hopewell	C	5.4	Hang Lung Development Co. Ltd.	C	16.1
Hang Lung Development Co. Ltd.	C	6.0	Hysan Development Co. Ltd.	C	15.7
<b>Total</b>		<b>109.78</b>	<b>Total</b>		<b>374.00</b>
<b>Total as % of construction and development capitalisation value</b>		<b>68.96%</b>			<b>48.20%</b>
<b>Total as % of overall stock market capitalisation</b>		<b>20.74%</b>			<b>20.38%</b>

\* K.S. Li took over Hutchison in September 1979 by acquiring 22.4% shares of stock and became the chairman on 1/1/1981. Therefore, Hutchison was still regarded as British-controlled firm in 12/79.

# B: British

C: Local Chinese

O: Overseas Chinese

Sources: *Hong Kong Economic Journal Monthly*, various issues.

In addition to the above 103 listed companies, there are a number of very large public companies that do not fall into the above group and yet a substantial volume of their business is related to the property development industry. The obvious are Hongkong and Whampao Dock, Mass Transit Railway Corporation (MTRC) and Kowloon Canton Railway Corporation (KCRC).

Table 4.1 also shows that, over time, there is a profound shift in the nature of property developers, that is, a switching from British-controlled property companies to the local Chinese-controlled entrepreneurial firms. This transition, described as below, reflects the broad social, economic and political changes in Hong Kong.

#### *Development in 1950s*

In the 1950s, the property market, or more precisely the Hong Kong economy, was dominated by four British-controlled hong, namely, Hutchison, Jardine Matheson, Swire Pacific and Wheelock Marden. Hong Kong Land, the property arm of Jardine Matheson<sup>3</sup>, was the owner of first class commercial properties in Central District and Causeway Bay. In residential development, this group of developers confined their investment to luxury apartments at Mid-levels.

For the mass residential sector, most of the developers were small in size, and some of them were associated with building contractors. They were mainly Chinese family businesses. In fact, in the 1950s, the outdated building regulation imposed a low plot ratio for building sites, making it almost impossible for developers to construct high density buildings. Residential development in the 1950s was therefore confined to low-rise tenement flats<sup>4</sup> in urban areas. The projects were usually small in size, mainly financed from the developer's own

<sup>3</sup> The association between Jardine Matheson and Hong Kong Land is very close. In fact, the chairman of Hong Kong Land is also the chairman of Jardine Matheson.

<sup>4</sup> In general, tenement housings were 3-5 storeys high, they were built on long narrow lots that varied in width from 4-4.5 m, with a length to breadth ratio of roughly 3:1 (Yuen 1995). The majority of tenements was leased by floor, and each floor was sub-divided into cubicles for sub-letting. As a result, living conditions in tenements were poor and unhealthy.



resources, bank loans and proceeds received from pre-sale of the property under construction. When a developer could not make ends meet, he or she simply disappeared. Consequently, developers of the 1950s did not command much respect nor confidence from the public.

### *Development in 1960s*

In December 1955, the Building Ordinance that set the parameters for property development in Hong Kong was amended to provide for much higher plot ratio than before. This paved the way for the construction of high-rise buildings. Also, in the early 1960s, the strong export performance in the manufacturing sector provided an abundant supply of finance from the banking sector. Simultaneously, there was the emergence of a well-to-do middle class who had both the desire and financial resources to acquire properties to improve their living conditions. Under such circumstance, land as well as property prices increased dramatically over a short period of time. This laid a firm foundation for rapid growth in the following decade. At the same time, radical changes were taking place both in the nature of the developer and the size of the development projects undertaken.

While the developers of the 1950s were mostly individuals of limited resources, the developers of the 1960s were substantial companies with sizable capital and financial support from banks. In fact, the relationship between developers and their financiers often appeared too close. In some cases, the bank managers, who realised a golden opportunity to make a quick profit, jumped on the bandwagon, and became financier-cum-developers. The lack of regulation in the banking industry allowed the banks to over-extend themselves that finally led to the banking crisis in 1965.

Unlike the 1950s, the relaxation of 1953 Building Ordinance allowed the restriction of residential height increased from five storeys to 8-10 storeys. This initiated a gradual but important change in the private housing. Single or 'pencil' high-rise residential housings were erected between low tenement buildings.

Also, whilst small flats<sup>5</sup> and tenement floors together continued to account for almost 90 per cent of all domestic units built each year, self-contained flats became much more important, and tenement floors declined as a proportion of the overall total from 75 per cent in 1965 to 48 per cent in 1971 (Drakakis-Smith 1979, p.75).

For the first time, big and high density development projects were undertaken by Chinese developers. The pioneer was the Goodyear Property Development Company, a Southeast Asian Chinese-controlled property firm, which started a massive middle income housing development in Ferry Street in Kowloon in mid-1960s. The project was developed in stages with completion of the last stage by the end of the 1960s. This was also the first major project that stood the test of a boom and a slump (the banking crisis in 1965). To a certain extent, it did show the changing mantle of the developers. They became more experienced, organised and financially resilient than their counterparts in the 1950s.

### *Development in 1970s*

In the 1970s, the Hong Kong property development industry came of age. This was made possible by parallel developments in the security and the banking industries, both of which revolutionised the conventional methods of property development finance in Hong Kong.

Before 1972, the Hong Kong Stock Exchange was the only stock exchange in Hong Kong. The companies that were traded in the Exchange were mostly controlled by British interests, apart from a number of utility companies that were locally based. But, in 1972, this state of affairs was changed by the arrival in Hong Kong of corporate raiders from the United Kingdom. The most famous (or infamous) of whom was Jim Slater of Slater Walker (Cheung 1987, p.22). A spate

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<sup>5</sup> During the period from 1963 to 1974, the Rating and Valuation Department defined small flats as independent premises properly partitioned as living rooms and bedrooms with separate kitchen and bathroom, having an effective area of more than 300 sq ft but not exceeding 650 sq ft.



of company floatations, take-overs, reverse take-overs and mergers fuelled the booming stock market. In addition, three new stock exchanges were established and commenced trading in shares of companies. Many private real estate developers took advantage of this new source of finance and went public in the exchanges<sup>6</sup>. During the stock market boom of 1972, more than 100 property and property related companies were floated at the four stock exchanges (*ibid.*, p.24). Despite the disappearance of many, a major proportion had remained and prospered. Among the notable ones that were floated in the 1970s were Cheung Kong, Hang Lung, New World Development and Sun Hung Kai.

Also, the 1970s saw a new development in the banking industry. Following the banking crisis in 1965, the Deposit-taking Companies Ordinance was enacted in 1976 that enabled deposit-taking companies to conduct, under certain restrictions and limits, most of the business hitherto conducted by licensed banks. This meant that international banks could now set up deposit-taking companies and to participate in the growing financial market of Hong Kong. Consequently, the number of banks and deposit-taking companies increased dramatically from 74 and some 200 to around 130 and 355, respectively, in 1978 (Leung, S.C-T. 1986, p.44). Together with their financial expertise, they brought with them their contacts and access to the vast resources of international financial markets. As a result, these resources were brought within the reach of local property developers. In fact, finance for major property developments in the late 1970s were usually arranged by a syndicate of international and local banks. Hence, Chinese developers were able to develop much bigger projects than before, and their companies switched from the entrepreneurial family business to the modern organisational style.

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<sup>6</sup> For example, Cheung Kong, New World Development and Sun Hung Kai absorbed a large amount of funds by offering shares to the public in 1972. First, in July 1972, Sun Hung Kai offered 20 million of shares at \$5 per share, the par value being \$1 per share. Then, in October, Cheung Kong offered 10.5 million shares to the public. Later, in November, New World Development offered 96,750,000 shares to the public, at \$2 per share, the par value being \$1 per share (So, L. 1982).

### *Development in 1980s onwards*

Starting from the early 1980s, there was a drastic change in the Hong Kong property development industry. To start with, the number of small developers greatly decreased. These small private companies with assets of one or two development sites had a hard time to seek support from the financial institutions during the period of property slump. Since then, large local public property companies flourished, and secured an increasingly powerful place in the property market.

First, in January 1977, Cheung Kong bid down Hong Kong Land, and won the contract to develop properties above the Central and Admiralty Mass Transit Railway (MTR) stations. Second, in September 1979, Cheung Kong, with the assistance of the then Hong Kong and Shanghai Banking Corporation (HSBC, now known as the Hongkong Bank), used \$6.39 billion to take over Hutchison Whampao. Third, in June 1980, Wharf, another property arm of Jardine Matheson, was taken over by another Chinese entrepreneur, Y.K. Pao<sup>7</sup>. Later, Y.K. Pao raised \$20 billion to take over one of the four British hong, the Wheelock Marden<sup>8</sup>. Hence, two of the four British-hongs were vanished in 1985, with Jardine Matheson and Swire still operating today. The dominance of British-based firms in Hong Kong property market and also the Hong Kong economy was ceased.

At the same time, a small contingent of Southeast Asian developers has emerged in Hong Kong since the 1970s. The most prominent one was Sino. Also, as described in Chapter 2, new players arrived at Hong Kong in the mid-1980s

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<sup>7</sup> The takeover of Wharf by Y.K. Pao in fact involved another 2 intermediaries. First, in 1978, Cheung Kong acquired enough shareholding in Wharf to gain control of the company's valuable land assets that were located primarily at Tsim Sha Tsui. Under the influence of the HSBC, Cheung Kong sold its accumulated shares to Y.K. Pao at a substantial profit. At that time, Y.K. Pao was the deputy chairman of the HSBC, and it was widely believed that the takeover was financed by HSBC, or its subsidiary (Wong, G. 1996, p.101).

<sup>8</sup> Because of the confidence crisis in 1983, Wheelock Marden retreated its investment in Hong Kong's properties, and shifted its emphasis in expanding the business in sea transport. However, the world-wide recession hit hard on sea travel, and the company suffered a huge loss. So, the company had to sell its shares to a Southeast Asian tycoon. Later, Y.K. Pao began his takeover plan, and used \$25 billion in February 1985 completely take control of the firm (Feng 1996, p.263).



giving the Hong Kong property development industry an international flavour. They were Mainland Chinese, Japanese and Australian.

In term of products, the 1980s saw a considerable expansion of a whole variety of increasingly sophisticated private residential schemes. They included one to two blocks of high-rise deluxe apartments, small-scale low-to-medium density villas<sup>9</sup>, and large-scale private housing estates<sup>10</sup>. And the most popular was the private housing estate. In fact, large scale private residential estates increased from one in 1976 to 12 in 1985, provided accommodation for approximately 400,000 people (Lee, A.W-C. 1987). Table 4.2 shows some of the typical examples in 1980s. These private housing estates are established to be self-sufficient community where the residents can buy almost all of the daily necessities there without having to shop elsewhere. Inside the estates, schools, clinics, restaurants, supermarkets, shopping centres, carparks as well as other amenities such as swimming pools and children playgrounds are found. Also, the guaranteed good property management and maintenance have made consumers have a strong preference for them.

Despite the dominance of large developers in the development of private housing estates, many smaller developers began to emerge in the boom of the 1980s. These small- to medium-size firms have secured viable niches in producing small-scale development, and are able to capture 50 per cent of the

<sup>9</sup> The first large scale low-density housing development for the middle-income families was Fairview Park at Tai Shang Wai near Yuen Long. It was started in 1974 and constructed by the Canadian Overseas Development Co. It accommodated about 30,000 people with commercial and community facilities provided within the site for its inhabitants. Other major ones included Hong Lok Yuen at north of Tai Po, Discovery Bay on Lantau Island, Red Hill in Tai Tam, and so on. These private housing schemes are usually found on the south side of Hong Kong Island and in the Sai Kung and Clearwater Bay Districts of the New Territories.

<sup>10</sup> The large scale housing estate design was first introduced in the public housing development of Wah Fu Estate near Aberdeen in 1968 by the HKHA. This design was so successful that private sector followed it up in the design for Mei Foo Sun Chuen at Lai Chi Kok, the first private large scale residential estate in Hong Kong (Bristow 1989, p.257). Generally, large scale residential estates are referred to those private housing estates that can accommodate a population of 15,000 people or above and contain more than 10 blocks of high-rise residential buildings with more or less the same architectural design. The blocks are arranged in an orderly way, giving the estate a highly uniform appearance (Lee, A.W-C. 1987).

**Table 4.2** Examples of large scale private residential estates in Hong Kong, 1966-85.

Name	Year	Location	Developer	Number of blocks	Total units	Population
Aberdeen Centre	1978-82	Aberdeen	Hutchison Whampao	20 (27-28 storeys)	3,000	13,000
Allway Garden	1978-80	Tsuen Wan	Hopewell	16 (22-29 storeys)	3,400	12,000
Chi Fu Fa Yuen	1976-81	Pokfulam	Hong Kong Land	20 (27 storeys)	4,350	20,000
City One Shatin	1976-88	Sha Tin	Cheung Kong + New World + Sun Hung Kai + Henderson	52 (27-33 storeys)	10,642	50,000
Kornhill	1984-87	Quarry Bay	MTR + Hang Lung + New World	44 (10 blocks PSPS)	9,500	38,000
Luk Yeung Sun Chuen	1978-83	Tsuen Wan	Hong Kong Land + Jardine Matheson + Sun Co. + Kiu Kwong	17 (28-30 storeys)	4,000	20,000
Mei Foo Sun Chuen	1966-78	Lai Chi Kok	New World	99 (20 storeys)	13,110	75,000
Nan Fung Sun Chuen	1977-78	Quarry Bay	Nan Fung	12 (20-32 storeys)	2,856	11,000
Tai Po Centre	1983-87	Tai Po	Sun Hung Kai	23 (22 storeys)	4,048	14,000
Taikoo Shing	1974-84	Quarry Bay	Swire	53 (22-30 storeys)	12,690	50,000
Telford Garden	1975-83	Kowloon Bay	MTR + Hopewell + Hang Lung	41 (11-26 storeys)	4,989	25,000
Whampao Garden	1984-91	Hung Hom	Hutchison Whampao	94	11,224	40,000

Source: adapted from Lee, A.W-C. (1987).

market (Wong, *et. al.* 1996, p.86). And, in the public sector, the Hong Kong Housing Authority (HKHA) has started to construct subsidised owner-occupied housing units since 1982. In fact, its production has made it the largest developer in Hong Kong (*ibid.*; Poon & others 1995, p.14).

So far, we have seen the evolution of the Hong Kong property developers and its property development industry from its early beginning to the present state of sophistication. In the next section, a brief profile of some developers will be given.



## **British-controlled property companies**

### *Hong Kong Land*

Hong Kong Land has the longest history. It was established by two businessmen, Paul Chater and James Johnstone Keswick, the latter being a representative of Jardine Matheson. It was incorporated as a public company on 2 March 1889 under the name of the Hong Kong Land Investment and Agency Company Ltd. Its portfolio was worth \$9.6 billion in 1997 (*SCMP*, 6 August 1997), and included much of the most valuable property in Central District. Actually, the company has been the 'King of Central' since early 1970s (Feng 1996, p.153). Currently, it owns 4.89 million square feet of office (a 40% of office space in Central) and retail space in the area, including Exchange Square, Jardine House, Landmark, Swire House, Alexandra House and Prince's Building. In 1997, it received in the form of rent from these assets a total of US \$485.1 million (*SCMP*, 7 August 1997).

For residential properties, the company owned mainly high-class residential premises for rental purposes. These properties were located at Mid-level, Stanley and Deep Water Bay. In mass residential development, the company's major project was the \$600 million Chi Fu Fa Yuen at Pokfulam, which was developed in stages over six years from 1976 to 1981. This estate provided a total of 4,350 residential units in 20 high-rise and seven low-rise blocks. Another significant housing development was Luk Yeung Sun Chuen, a 4,000-flat residential commercial complex over the Tsuen Wan MTR depot. The company was one of the participants in a joint venture (15%) with Jardine Matheson, the Sun Company and Kiu Kwong Investment (a Beijing-backed property company). The project started in 1978 and completed in 1983. Also, the company was awarded a contract by the Hong Kong government, under the Middle-income Housing Scheme, to develop for sale and manage a residential-cum-commercial estate at Tuen Mun, Chi Lok Fa Yuen. This project was completed in 1981.

However, starting from 1984, the company started to scale down its investment in Hong Kong. First, the confidence crisis in 1982-84 arising from the

Sino-British negotiation over the fate of Hong Kong's sovereignty in 1997 made Jardine Matheson, the parent company of Hong Kong Land, moved its headquarters from Hong Kong to Bermuda. Second, after the takeover of Wharf by Y.K. Pao, Jardine Matheson and Hong Kong Land bought a substantial volume of each other's shares so that a potential predator would have to take the two companies together. Unfortunately, this mutual reinforcement became a mutual burden as Hong Kong Land incurred major losses during the property market crash in 1983. Hong Kong Land had to sell all its residential and some commercial investment until its land bank was exhausted. The result was a drastic shrinkage in the size and centrality of Hong Kong Land in the property market.

### *Swire Properties*

Swire Properties, a 72.5 per cent-owned subsidiary of Swire Pacific, was incorporated in November 1972 with the objective of developing some 96 acres of surplus land of Swire Pacific and Swire Industries situated at Shau Kei Wan, Quarry Bay and Braemar Hill, North Point. It was later listed in the stock exchanges in 1977.

The first and most important company project was, of course, the Taikoo Shing, a re-development involving some 53 acres at the former Taikoo Dockyard in Quarry Bay. It took 11 years (1974-84) in ten stages to complete, and it now comprises an estate of 53 tower blocks providing 12,690 apartments and housing 50,000 people. Stages one to four, comprising 4,960 flats in 24 towers, were joint venture with local developers, with a view to accelerating the massive development programme and to acquiring the necessary expertise. The remaining stages were developed solely by the company. Using cash flow generated from land disposals and sales of the Taikoo Shing flats, the company has diversified its property assets to other areas outside Hong Kong. Offshore, the company has property and development interests in Florida and Hawaii.



So far, the company is the most active British-controlled firm in Hong Kong property development industry. Its most recent project is Island Place in North Point, and interestingly, its developments are centred at Hong Kong Island East stretching from Sai Wan Ho to North Point.

### **Chinese-controlled property companies**

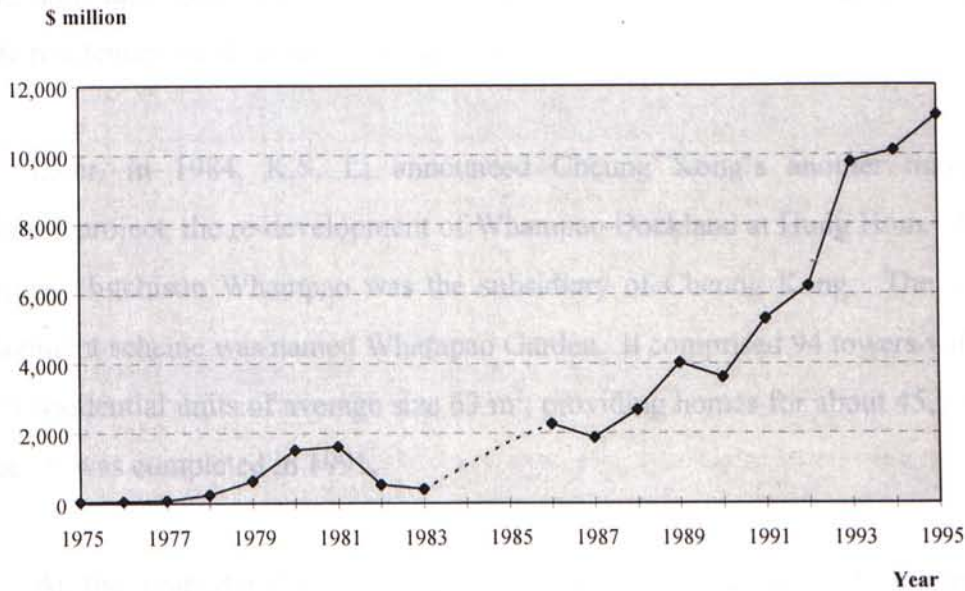
#### *Cheung Kong (Holdings)*

Cheung Kong is often ranked as the most successful local developer that has broken into the monopoly position built up in prime Central commercial properties by Hong Kong Land. The company was formerly named Cheung Kong Real Estate Co. Ltd., and was incorporated in June 1971, with the present name being adopted in August 1972.

The company, under the directorship of its chairman K.S. Li, has become established within a relatively short span of time as one of the Hong Kong's leading property development company, representing the new Chinese influence in the market. Born in 1928 in the Guangdong town of Chaozhou, K.S. Li started selling plastic products in Hong Kong after migrating to the territory with his family in 1940 and barely obtaining a high-school diploma. After weathering the 1951 Korean War embargo, his plastics company thrived. By early 1960s, he was reputed to have accumulated \$50-60 million from the business (Wong, G. 1996, p.100). From the mid-1960s to early 1970s, he bought a lot of properties when the prices were relatively low. In the 1970s, he shifted his main business to the property development. His flagship company, Cheung Kong, went public in 1972.

In 1974, he set up Canadian Eastern Finance, a deposit-taking company as a joint venture with the Canadian Imperial Bank of Commerce. Later, he was made a director of the HKSBC in 1978. Previous to this, in 1975, HKSBC acquired a large proportion of Hutchison's shares in a rescue operation. Then, in 1979, HKSBC sold its shares to Cheung Kong giving it the control over the

Hutchison Whampao<sup>11</sup>. In the following week, K.S. Li was made a director of the China International Trust and Investment Corporation (CITIC), which was one of the first major investment vehicles set up by the State Council of China. So, by 1979, K.S. Li was the colony's largest private landowner (Gilley 1997a). This is evident in Figure 4.2 that shows that Cheung Kong's profit had a big jump — a 135 per cent increase — from \$639.9 million to \$1,604.5 million in 1979-80.



Note: 1984-85 data not available.

**Figure 4.2** Cheung Kong's profit attributable to shareholders ended on 31 August, 1975-95.

Sources: Cheung Kong's annual reports, various years.

Prior to 1976, Cheung Kong's major business was property investment in commercial premises at Central District and Wanchai. In 1976, it began the trading activities in large scale residential development projects. The first one was

<sup>11</sup> Because of mis-judgement in the investment in the stock market, Hutchison suffered a huge loss (\$1.29 billion) in the 1973 stock market crash. In order to rescue the company, Hutchison sold its 33.65% shares to HKSBC in September 1975, making HKSBC as the major shareholder of the company. In November, HKSBC invited W.R.A. Wyllie into the Board of Director in Hutchison, and began the restructuring of the company. At the end of 1977, Wyllie made an important decision to combine Hutchison International Ltd. and Hong Kong & Whampao Dock Co. Therefore, Hutchison Whampao was formerly established on 3 January 1978. However, on 25 September 1979, HKSBC and K.S. Li made an agreement to transfer HKSBC's control of Hutchison Whampao to Cheung Kong. In this transaction, Cheung Kong enjoyed a favourable term. K.S. Li only needed to pay 20% of the market price of Hutchison Whampao's current stock, which Wyllie later commented as, 'Mr Li just uses US \$2,400 deposit to buy over US \$10 billion asset' (Feng 1996, p.242).



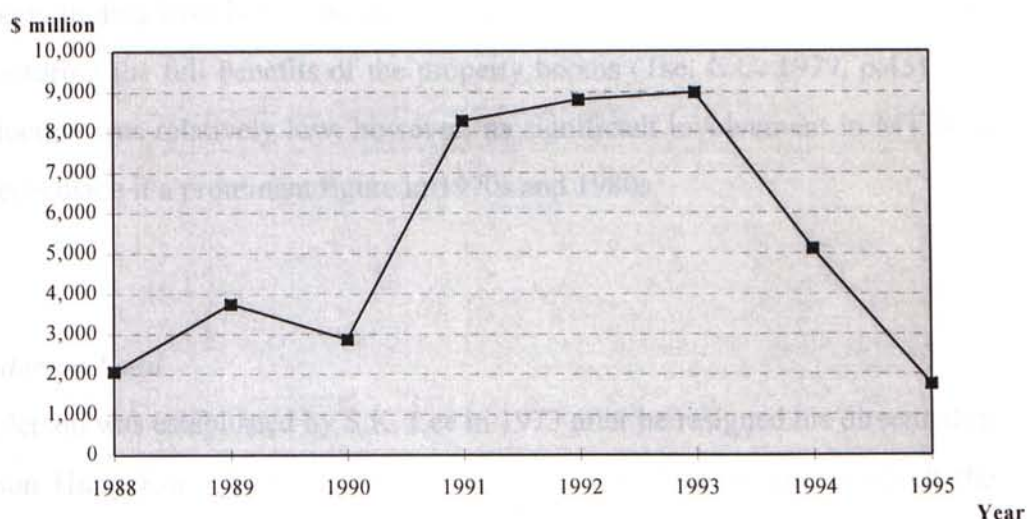
City One Shatin. Cheung Kong, in conjunction with three other Hong Kong property developers (Henderson, New World Development and Sun Hung Kai), formed a company called Paramatta Investment Co. Ltd. in which each of the parties owned a 25 per cent interest. This company acquired from the Government by tender, in the amount of \$20.6 million, about 40 acres of land at Siu Lek Yuen in Sha Tin. It erected 52 blocks of 27-33 storeys residential buildings, providing 10,642 units and housing about 50,000 people. It was also the first large scale private residential estate in the New Territories.

Later, in 1984, K.S. Li announced Cheung Kong's another major residential project, the re-development of Whampao Dockland at Hung Hom. At that time, Hutchison Whampao was the subsidiary of Cheung Kong. The re-development scheme was named Whampao Garden. It comprised 94 towers with 11,224 residential units of average size 63 m<sup>2</sup>, providing homes for about 45,000 people. It was completed in 1991.

At the property slump at the end of 1980s, while many developers withdrew their property investments, Cheung Kong was very active in large scale residential projects. Between 1987 to 1990, it involved in four main projects, namely, Laguna City and Sceneway Garden in Lam Tin, South Horizon in Ap Lei Chau and Kingswood Villas in Tin Shui Wai. The sales of these four projects accounted for the dramatic rise in the company's turnover in 1991 (see Fig. 4.3). Thus, starting from early 1990s, Cheung Kong has established its leading role in private housing development in Hong Kong. Its vast number of other projects of different scales and categories spreading in almost every corner of Hong Kong.

#### *Hang Lung Development*

Hang Lung was incorporated as a private company on 13 September 1960, and went public on 28 September 1972. Initially, rental incomes from commercial properties and high class residences formed the major profit element (60%; Tse,



**Figure 4.3** Cheung Kong's turnover of sales of properties, 1988-95.

Sources: Cheung Kong's annual reports, various years.

C.C. 1979, p.46) for the company. But from 1975, the company started to be intensively involved in the property development over MTR stations.

The first residential project was Telford Garden in Kowloon Bay MTR station. It was developed as a joint venture between the company and Hopewell Holdings to provide 4,984 residential units in 41 towers. Close to this site, Hang Lung developed another major project, Amoy Garden — 13 residential blocks in two phases. Apart from these two major popular class residential projects, the company won the tender for the Kornhill development above and adjacent to Taikoo MTR station in June 1981. This development scheme was jointly designed and developed by MTRC and Headstarts Ltd., a consortium formed by several property developers, headed by Hang Lung and New World Development. Forty-four blocks, including ten blocks of Private Sector Participation Scheme (PSPS) units, were built, providing 9,500 housing units to accommodate 38,000 people. Besides these residential projects, Hang Lung was responsible for other projects constructed over Fortress Hill, Tin Hau, Wan Chai and Sheung Wan MTR stations.



In comparison with Cheung Kong, Hang Lung's policy and performance in property trading have been somewhat conservative and the relative lack of success in capturing the full benefits of the property booms (Tse, C.C. 1979, p.45). Its production was relatively low; however, its significant involvement in MTRC's projects made it a prominent figure in 1970s and 1980s.

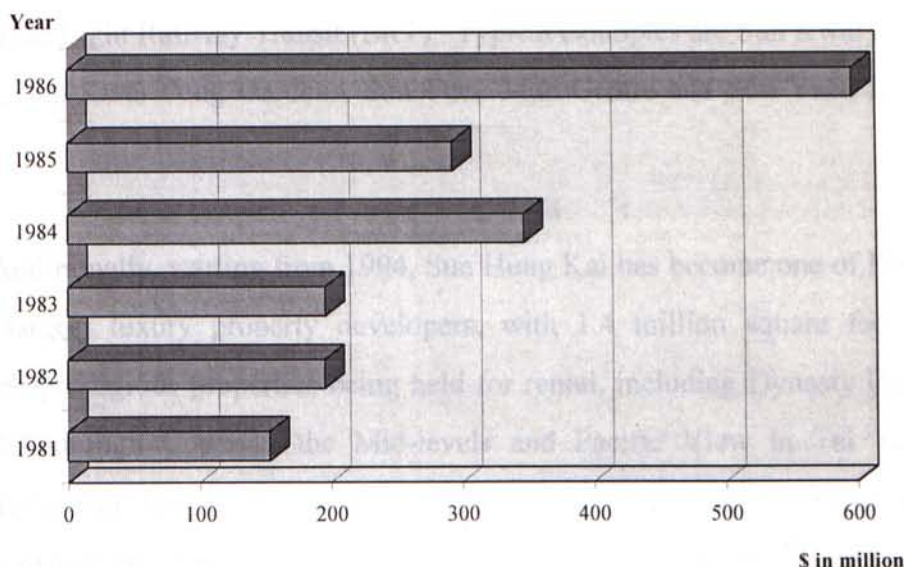
### *Henderson Land*

Henderson was established by S.K. Lee in 1973 after he resigned his directorship of Sun Hung Kai. Its first major project was City One Shatin in which the company was one of the four partners. In fact, Henderson was active in resuming land piece by piece at the urban core for re-development. For example, the company spent four years and ten months (from March 1988 to January 1993; Liang 1997, p.93) in buying 28 premises to accumulate a lot of 30,505 square feet for a building site at North Point. Therefore, Henderson was rarely seen in public land auctions except those held during the property slumps<sup>12</sup>. Consequently, Henderson has built its prominence by building and selling small- to medium-size flats in the urban area that were favoured by the lower-middle income households in the old days (Loong 1985, p.18).

Also, Henderson has been keen to acquire land through the accumulation of Land Exchange Entitlements (LEEs; details of LEE will be discussed in next chapter). Figure 4.4 shows the stock of LEEs in the period between 1981 to 1986. As these LEEs are for the sole purpose of exchange for land at New Territories for property developments, it is not surprising to find Henderson has begun its large scale residential development around late 1980s and early 1990s. Actually, the most recent projects are found in the New Territories, for example, Wonderland Villas in Kwai Chung, Sunshine City in Ma On Shan, Finery Park in Tseung Kwan O, and so on. In such context, Henderson can be regarded as a late-comer, but one

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<sup>12</sup> For instance, Henderson paid \$88 million for development of residential units at Fanling on 25 July 1989, the first public land auction after the June 4 massacre in Beijing. The auction price was a 25% drop of the property market price at that time (SCMP, 26 July 1989).



**Figure 4.4** Net cost of Henderson's holding of Land Exchange Entitlements, 1981-86.

Sources: Henderson's annual reports, various years.

of the three giant companies along Cheung Kong and Sun Hung Kai in the provision of private owner-occupied housing in Hong Kong.

#### *Sun Hung Kai Properties*

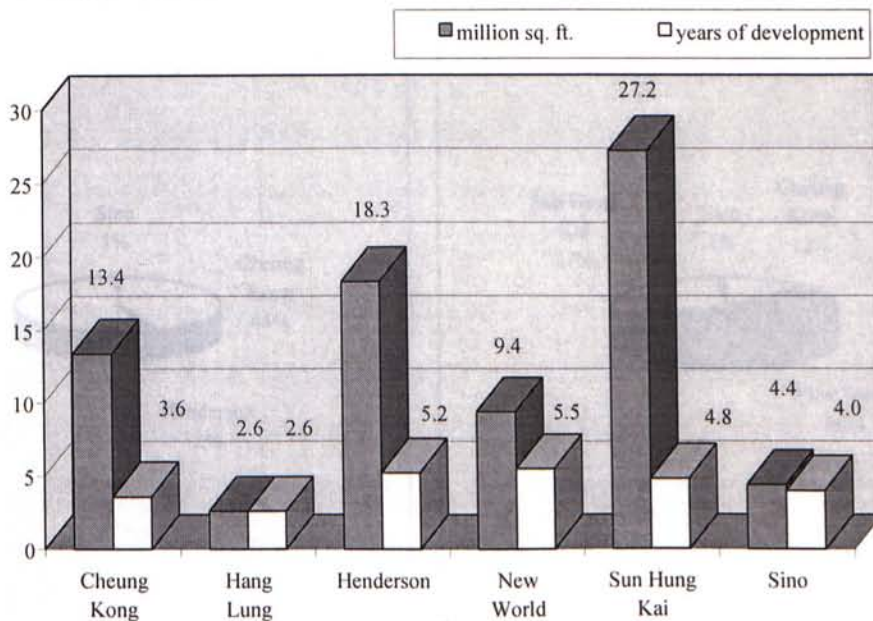
Sun Hung Kai was incorporated in August 1972 to consolidate the property interests of the partnership between T.S. Kwok, K.H. Fung and S.K. Lee. The main activity of the company has been the development of properties for sale, notably in the popular residential unit category. Over years, around 70 per cent of gross revenue has originated from property development (*Express News*, 13 September 1997). The company has also 66 per cent interest in New Town Properties Ltd. which, as the name implies, specialises in developments in the New Territories and with the popular New Town Plaza in Sha Tin on the top of its portfolio list. In other words, Sun Hung Kai has firmly established itself as a major developer in new towns.

Also, while Hang Lung was the major developer specialised in property developments along the MTRC Island Line, Sun Hung Kai has been the key

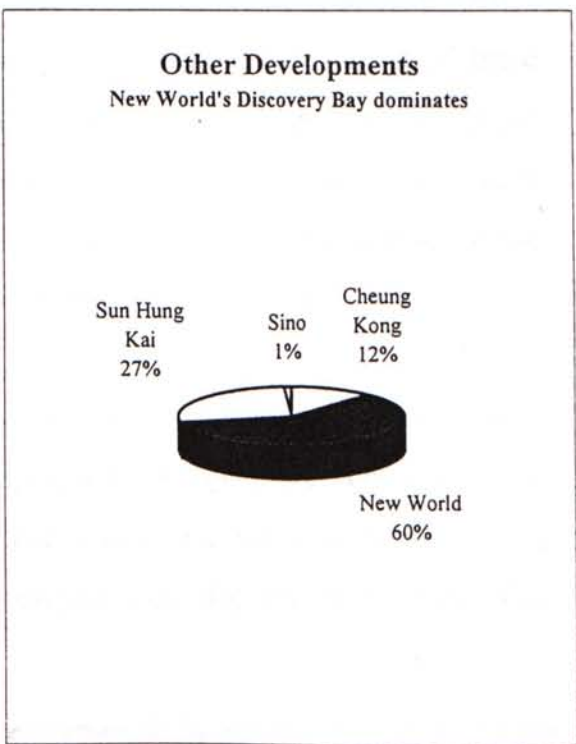
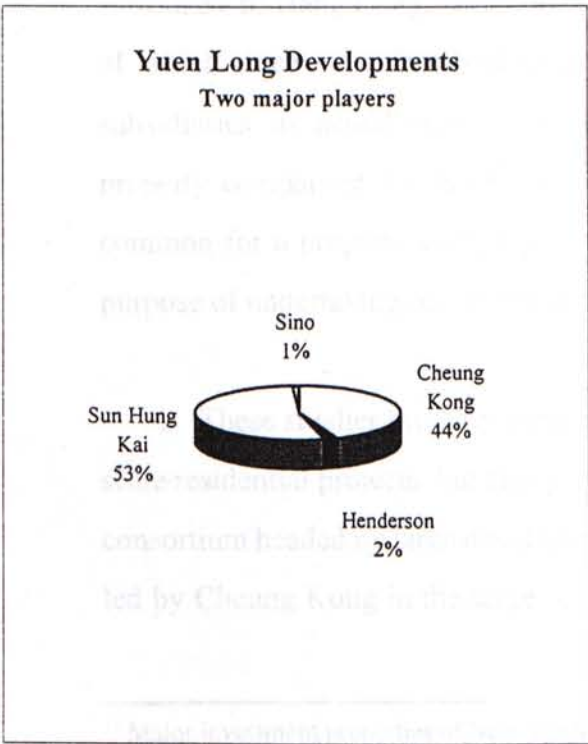
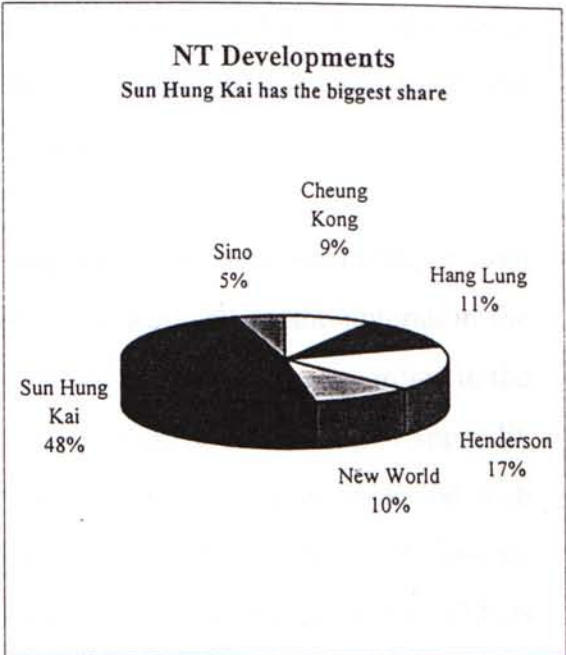
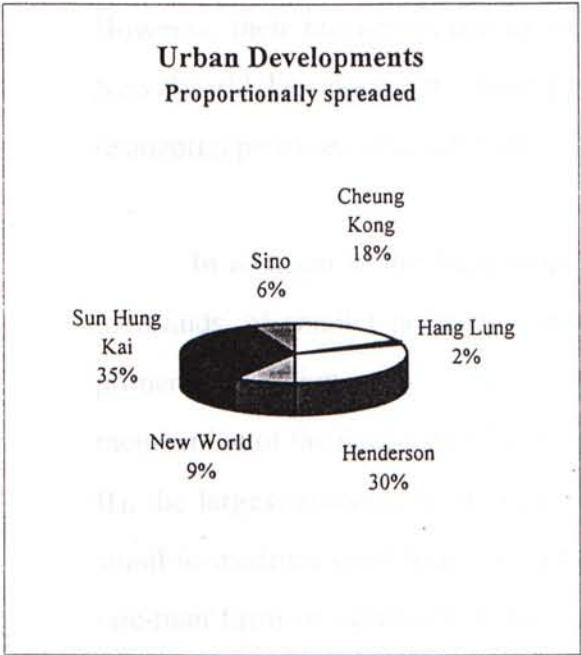


developer in the property developments above stations of the MTRC Kowloon Line and the Light Railway Transit (LRT). Typical examples are Sun Kwai Hing Gardens, Sun Kwai Fong Gardens, Sun Tuen Mun Centre and Sun Yuen Long Centre.

Additionally, starting from 1994, Sun Hung Kai has become one of Hong Kong's largest luxury property developers, with 1.4 million square feet of completed prestigious properties being held for rental, including Dynasty Court and Hillsborough Court in the Mid-levels and Pacific View in Tai Tam. Furthermore, Sun Hung Kai owns the largest land bank in Hong Kong. Figure 4.5 indicates that its land bank in 1995 was sufficient for property development in the next five years. Moreover, nearly 70 per cent of these lands were centred in the New Territories, particularly at Yuen Long (Fig. 4.6). With its large land bank, most of which was acquired at competitive prices, the company will certainly maintain its leading role in the future property development industry.



**Figure 4.5** Distribution of major developers' land banks, March 1995.  
Source: Au-Young & Chiu (1995).



**Figure 4.6** Major developers' land bank breakdown by location, March 1995.

Source: Au-Young & Chiu (1995).



*Other local Chinese-controlled property companies*

Other major local developers whose investments involve residential developments include Hopewell Holdings, Hysan Development and New World Development<sup>13</sup>. However, their businesses mostly centre in the commercial sector, particularly New World Development whose properties are high quality commercial and residential premises situated in prime locations.

In addition to the large property companies, there are hundreds, or even thousands, of smaller property companies — at least during the upturns in the property cycle (but many of them disappear during downturns). According to the member list of the Real Estate Developers Association of Hong Kong<sup>14</sup> (Appendix II), the largest association of Hong Kong's developers, there are over 200 such small-to-medium sized firms operating in the property market. Many of these are one-man firms or offshoots of estate, construction and insurance agents. Others are subsidiaries of large companies. For example, the Amoy Properties is the subsidiary of Hang Lung. Sun Hung Kai had 16 principal subsidiaries in 1996<sup>15</sup>, of which three were involved in property investment. While most of these subsidiaries are actual operating property companies, there are countless paper property companies that have been formed for tax purposes. Also, it is quite common for a property company to register a separate company simply for the purpose of undertaking one development or property transaction.

These smaller property companies are not only active in small-to-medium scale residential projects, but also participate in large scale projects by joining the consortium headed by large developers. For instance, Lai Sun joined a consortium led by Cheung Kong in the large scale residential development at Tin Shui Wai.

<sup>13</sup> Major investment properties of New World Development are the New World Centre in Tsim Sha Tsui and the Hong Kong Convention and Exhibition Centre in Wan Chai.

<sup>14</sup> The association was established in 1976. It acts as a link between government and the private sector. The association presidential-level members are property giants such as Y.T. Cheng, Stanley Ho, Thomas Kwok, S.K. Lee, K.S. Li, T.F. Ng and Gordon Y.S. Wu.

<sup>15</sup> The 16 principal subsidiaries listed in the 1996 annual report were those which principally affected the profit and loss account or assets of the Sun Hung Kai Properties Ltd. For the Sun Hung Kai Group, there were totally 151 principal wholly owned subsidiaries, of which 119 were involved in property development and investment.

Similarly, HKR International participated a joint venture with New World Development in the Discovery Park development at Tsuen Wan.

Generally, small property companies are keen to spend \$100-200 million to acquire properties or vacant lots in urban areas for development (*SCMP*, 24 September 1997). At the same time, some companies are active in acquiring semi-completed projects in the New Territories that usually were granted re-zoning approval by the Government. This investment strategy can achieve lower land costs, and enhance the medium-sized companies' competitiveness against property giants.

Also, many small- and medium-sized companies concentrate their businesses in constructing residential buildings at the top-end market. Liu Chong Hing, for example, developed Fairview Court in Repulse Bay Road, and Po Garden in Brewin Path, the Peak. Yu Tai Hing, a local property developer since 1966, is known for developing luxury houses such as Louisettes in Stanley, Rosecliff at Tai Tam Road and the Hazelton at Shouson Hill Road. This kind of development involves low plot ratio, which in turn reduces the construction cost but increases the rate of return in profit. At the other end, some developers only construct village-type houses in the New Territories. For instance, Kai Tak International's major projects are to re-develop the small houses of indigenous villagers<sup>16</sup> in Yuen Long and Tuen Mun. These houses are usually of European-style, 2-3 storeys high and the size of units ranging from 350 to 700 square feet (*Express News*, 31 July 1997).

Finally, there are numerous but an unknown number of private property companies who continuously or intermittently involve in residential development

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<sup>16</sup> Indigenous villagers are, by law, those who can prove they are descended, through the male line, from a resident of a recognised village existing in 1898, and are entitled to a once-in-a-lifetime grant of a housing site. Once the site has been granted, the villager can build a single family dwelling that is restricted to no more than three 700-sq-ft storeys. Theoretically, the grant is designed to provide housing for indigenous villagers. But, the villager may apply to remove the 'non-assignment' clause in the conditions of grant. After this modification, the house can be sold. Therefore, there is an active market in the New Territories and Outlying Islands dealing the sales of houses on sites assigned to indigenous villagers.



in Hong Kong. Among them, the giant company is Chinachem Group. Chinachem is privately owned by T.F. Wang and his wife, Nina Wang. Its residential projects are usually small- to medium-sized scattering in Tsuen Wan, Kwai Chung, San Po Kong, Kwun Tong and Sha Tin. Although it is the fourth biggest developer, along with Henderson, Cheung Kong and Sun Hung Kai (*Oriental Daily*, 23 May 1997), its projects are not so popular as the others'. The main reasons are the poor workmanship and improper design. Therefore, the appreciation potential of these units is relatively low. A typical example is the high vacancy rate of Pictorial Garden in Sha Tin (1,320 vacant units; *Oriental Daily*, 15 April 1998), which have been completed for more than two years. Interestingly, Chinachem never faces financial difficulties although its properties are not be sold within a short period. Another well-known private company is Nan Fung Development, which is the property arm of Nan Fung Textiles. Its first main project was Nan Fung Sun Chuen.

### **Overseas-based property companies**

As mentioned in Chapter 2, the unique performance of the Hong Kong property market has been attracting many overseas players since early 1980s. These outsiders are dominantly overseas Chinese from Southeast Asia and recently Chinese from Mainland China. In the Southeast Asian Chinese group, the most prominent one is Sino Land.

Sino is a Singapore-based company, and is a relatively new entrant. It is often regarded as unorthodox in Hong Kong's real estate development industry. Henderson and Sun Hung Kai, for instance, have special land entitlements from the Government. Cheung Kong specialises in having land-use rules changed. Others send teams sniffing out sites around the territory. Sino relies largely on public auctions. Take 1986/87 as an example. Sino won seven out of 23 lots of land sold in public auctions (*Ming Pao*, 2 December 1987). In the land auction, Sino is characterised by its aggressive bidding. There are, in fact, many notable examples. In December 1993, Sino paid a record \$3.94 billion for the Ling Ping

Road residential site at a government auction, on average about \$58,244 per square metre (*Hong Kong Economic Times*, 16 December 1993). Recently, on 25 March 1997, Sino paid \$11.82 billion (or US \$1.53 billion) to beat off more than 14 rival bidders to win a large residential site in Siu Sai Wan — a site which was probably the highest price paid at auction for any site in the world (*SCMP*, 26 March 1997). Currently, Sino is the fifth largest property developers in Hong Kong (Healey & Shameen 1998), and its most well known project is the Gold Coast, Tuen Mun.

In the Mainland Chinese group, two companies are particularly active in the property development sector. They are the China Overseas Land and Investment Ltd. (COLI) and the CITIC Pacific.

Established in 1979 as a subsidiary company of the China State Construction Engineering Corporation, COLI is the largest of the China funded enterprises directly engaged in property development. In the period 1985-93, the company completed some 26 residential and/or commercial development projects in Hong Kong (Hastings 1995, p.8), and the annual report listed some \$5,274 million as attributable to property interests. On 20 August 1992, the company was listed on Hong Kong Stock Exchange, and reported its land bank of 3,619 square feet of agricultural land in Yuen Long. Its recent projects are mostly located at the New Territories, for example, Parc Royale in Sha Tin, Classical Garden in Tai Po and Union Plaza in Fanling.

CITIC Pacific, another key China-related company, is the Hong Kong representative office of CITIC, Beijing (a state-owned enterprise). Established in 1985-86, it acts as the investment arm of the Beijing government. Since inception, the company has undertaken a series of purchases to acquire land and real estate development schemes in the form of joint ventures with one of the major local developers. Its latest project is the Paragon in Tai Po. Clearly, companies with powerful Mainland Chinese backing are now in a position to compete on equal terms with any local or overseas developer. As a result, there is an increasingly



sophisticated group of investors who will become major players in the Hong Kong housing market.

### **Public-sector developers**

#### *Hong Kong Housing Authority*

The main public-sector developer in Hong Kong is the Hong Kong Housing Authority (HKHA) and is the housing body of the Government. Constituted in 1954, the authority plans and builds public sector housing, either for rent or sale. It manages public housing estates, Home Ownership Scheme (HOS) courts, interim housing, cottage areas, transit centres, flattened factories, commercial facilities and other community and ancillary facilities throughout the territory. It also administers the PSPS and the Home Purchase Loan Scheme.

Increasingly, the HKHA has become the largest developer in the provision of owner-occupied housing in Hong Kong. Since the set up of HOS in 1976 and PSPS in 1977, over 266,000 flats have been sold (see Table 4.3 and Appendix III). As Appendix III shows, HOS and PSPS flats scatter in every corner of Hong Kong. Indeed, the success of HOS has enabled the HKHA to become financially self-supporting since 1992 and to generate sufficient funds to finance its large public housing production programme<sup>17</sup>. In 1995/96, the revenue from HOS sales amounted to 56 per cent of the total income (HKHA 1996b., p.5). It is the Government's objective to promote home ownership rate to 70 per cent by 2007. To fulfil this objective, HKHA plans to build 175,000 flats for sale over the period from April 1995 to March 2001 (Hong Kong Government 1997a, p.20).

#### *Hong Kong Housing Society*

The Housing Society (HKHS) is an independent, non-profit-making organisation, established in 1948. It provides housing for specific low-income groups in Hong

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<sup>17</sup> In the consultative document of the LTHS, the HKHA plans its annual production of 54,000 PRH units in the period from 1995-96 to 2000-01, and 39,000 units in the period from 2001-02 to 2005-06 (Hong Kong Government 1997a, p.6).

**Table 4.3** Number of HOS and PSPS flats, 1978-97.

Year	Phase no.#	No. of flats
1978/79	1	9,879
1980/81	2A and 2B	3,574
1981/82	3A and 3B	5,407
1982/83	4A and 4B	10,648
1983/84	5A and 5B	8,165
1984/85	6A and 6B	12,520
1985/86	7A, 7B and 7C	12,574
1986/87	8A, 8B and 8C	16,648
1987/88	9A, 9B and 9C	12,242
1988/89	10A, 10B and 10C	15,437
1989/90	11A, 11B and 11C	17,372
1990/91	12A, 12B and 12C	16,525
1991/92	13A, 13B and 13C	18,634
1992/93	14A, 14B and 14C	22,015
1993/94	15A, 15B and 15C	14,658
1994/95	16A and 16B	12,774
1995/96	17A and 17B	12,789
1996/97	18A, 18B and 18C	13,731
1997/98	19A, 19B and 19C	31,030
<b>TOTAL</b>		<b>266,622</b>

# details of HOS and PSPS flats introduced in each phase shown in Appendix III.  
Source: HKHA.

Kong. Apart from the construction of rental estates, the Society builds owner-occupied housing through three schemes.

The first scheme is Urban Improvement Scheme (UIS) that was established in 1974 with a \$100 million starter loan to be repaid in 1994<sup>18</sup>. Under such scheme, slum properties in decaying urban areas are identified for re-development. As the properties are resumed at market price, the re-developed units are therefore sold at market price, just like ordinary private housing units. Then in 1988, a Flat-For-Sale Scheme (FFSS) was initiated under which quality flats at concessionary prices are provided to the low-to-middle income families. At the end of 1997, the above two schemes produced a total of 12,717 units (Table 4.4).

<sup>18</sup> Also, in 1994, the Housing Society issued \$2,000 million Floating Rate Note to raise funds from the commercial sector.



**Table 4.4** Owner-occupied housing production by HKHS, 1985-98.

Year	UIS	FFSS	SCHS	Total
1985/86	97	-	-	97
1986/87	380	-	-	380
1987/88	485	-	-	485
1988/89	450	926	-	1,376
1989/90	-	254	-	254
1990/91	-	-	-	-
1991/92	998	1,328	-	2,326
1992/93	-	638	-	638
1993/94	69	400	-	469
1994/95	154	-	-	154
1995/96	448	1,128	1,024	2,600
1996/97	-	-	882	882
1997/98	900	4,062	4,010	8,972
<b>TOTAL</b>	<b>3,981</b>	<b>8,736</b>	<b>5,916</b>	<b>18,633</b>

Source: HKHS.

In August 1993, the Government launched the Sandwich Class Housing Scheme (SCHS), and the Housing Society was appointed to implement both the Loan Scheme and the Main Scheme in phases. In the Main Scheme, the Society constructs flats for sale to the middle-income families at affordable prices. It has to pay 50 per cent land premium for the land and to finance the full cost of construction. The reduced land cost enables the flats to be sold at approximately 30 per cent below the market price (So, V. 1996, p.52). The first SCHS project was Tivoli Garden in Tsing Yi offering 1,024 flats, and completed in December 1995. The another development was Park Belvedere in Ma On Shan that offered 882 flats at the end of 1997. Apart from these two, nine other sites were granted at the first batch<sup>19</sup>, and another 11 SCHS projects have been identified that will produce some 12,000 units, so that the Society will produce a total of 30,000 units by the year 2003.

<sup>19</sup> The other sites for Batch I SCHS Main Scheme locate throughout the territory at Ap Lei Chau, Diamond Hill, Ho Man Tin, Sha Tin, 2 sites at Kwai Chung and 3 sites at Tseung Kwan O.

### *Land Development Corporation*

Land Development Corporation (LDC), a quasi-government corporation, was established by the Government on 10 December 1987 under the LDC Ordinance (Chapter 15). It aims to improve the urban environment through urban renewal. To enable the Corporation to carry out such a task, the ordinance has given it the power to prepare and implement development proposal. Once the land has been acquired, LDC will implement its plans for urban renewal either independently or with participation of private developers. The residential units produced will be sold to the public at market prices.

As the LDC was provided with an interest-bearing loan facility of \$100 million as initial funding by the Government — a very modest sum indeed in terms of investment capital in real estate development, only six residential projects have been completed so far which are listed in Table 4.5. This also reflects the difficulties of LDC to assemble sites for re-development. However, given its pledge of achieving an annual production of 85,000 housing units in next ten years, the Government plans to upgrade LDC to the Land Renewal Authority in 1999 and delegate much power to speed up the urban renewal process. In fact, LDC has planned to produce a total of 5,838 residential units up to 2003<sup>20</sup>.

### **Other public companies**

As described at the beginning of the chapter, there are many public companies that are involved in property development in Hong Kong, even though their main business interests lie elsewhere. In this group, the two most prominent are the MTRC and KCRC.

### *Mass Transit Railway Corporation*

The MTRC is a statutory body established by Hong Kong government in 1975 to construct and operate an underground railway system on prudent commercial

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<sup>20</sup> This figure is provided by the Personal Relation Department, LDC.



**Table 4.5** Owner-occupied housing production by LDC, 1994-96.

<b>Projects</b>	<b>Developer</b>	<b>No. of residential units</b>
<i>A. Completed projects</i>		
Li Chit Garden, Wan Chai	New World	180
Ko Nga Court	New World	226
Ko Chun Court, Sai Ying Pun	New World	26
Tai Yuen Court, Wan Chai	LDC	100
Yan Yee Court, Wan Chai	LDC	46
Kui Yan Court, Sai Ying Pun	LDC	48
<b>Total</b>		<b>626</b>
<i>B. Under construction</i>		
Bulkeley Street, Hung Hom	LDC	54
<b>Total</b>		<b>54</b>
<i>C. Under active implementation</i>		
Queen Street, Sheung Wan	New World + Cheung Kong	850
Wanchai Road/Tai Yuen Street, Wan Chai	Chinese Estates Holding + Kwong Sang Hong + Chi Cheung Investment + Peregrine Investment	432
Kwong Yung Street, Mong Kok	LDC	192
Gillies Avenue, Hung Hom	LDC	160
Nga Tsin Wai Village, San Po Kong	LDC	648
Macpherson Stadium, Mong Kok	Hong Kong Playground Association	308
Tsuen Wan Town Centre	LDC	1,728
Kennedy Town New Praya	LDC	784
Yeung Uk Road, Tsuen Wan	LDC	608
Ka Wai Man Road, Kennedy Town	LDC	128
<b>Total</b>		<b>5,838</b>

Source: Personal Relation Section, LDC.

principles. Since the MTRC had heavy commitments to the railway construction, resources for property development were limited. Besides, in order to maximise profits and avoid as much risk as possible, the MTRC adopted the policy to rely on the expertise and financial resources of local or overseas developers. As a result, air space over the MTR stations and depots were co-developed by MTRC and property developers in the form of joint ventures.

The MTRC started its property co-developments in 1976. The first project was the residential development over the Kowloon Bay depot, that is the Telford Garden. Thereafter, various projects were implemented along the railway line

during 1977 to 1990. The total number of residential properties was 31,366 (Table 4.6), making it one of the largest property management companies in Hong Kong.

**Table 4.6** List of MTRC property co-development projects, 1976-90.

Developed project	Station	Developer	No. of residential flats
Telford Gardens	Kowloon Bay	Hang Lung + Hopewell	4,992
Luk Yeung Sun Chuen	Tsuen Wan	Dai Sun + Hong Kong Land + Jardines	4,000
New Kwai Fong Gardens	Kwai Fong	Sun Hung Kai	1,264
Sun Kwai Hing Gardens	Kwai Hing	Sun Hung Kai	600
Kornhill	Taikoo	Hang Lung + New World Development	8,828
Fortress Metro Tower	Fortress Hill	Hang Lung + New World Development	757
Hongway Garden	Sheung Wan	Hang Lung + New World Development	412
Perfect Mount Gardens	Shau Kei Wan	Tai Wing Construction	760
New Jade Garden	Chai Wan	Sun Hung Kai	1,488
Southorn Garden	Wan Chai	Hang Lung + New World Development	480
Heng Fa Chuen	Heng Fa Chuen	Heng Fa Chuen Development	6,560
Park Towers	Tin Hau	Hang Lung + New World Development	493
Felicity Garden	Sai Wan Ho	New World Development	732
<b>Total</b>			<b>31,366</b>

Source: MTRC's 1988 annual report.

### *Kowloon Canton Railway Corporation*

The KCRC was established on 24 December 1982 under the KCRC Ordinance (Chapter 372) to undertake the operation of the British Section of the Kowloon Canton Railway. Although its principal activities are to operate a railway system between Kowloon and Lo Wu, and a LRT system in Western New Territories, property development is also the official principal activity. In fact, at least 8 per cent of its recurrent revenue came from commercial properties in the years 1990-93. In 1997, more than 60 per cent of its net profit was derived from property development along the KCR and LRT lines (*SCMP*, 26 March 1998). The KCRC has participated in at least eight residential projects located at sites originally



owned by itself. All these projects are jointly developed with private developers (Table 4.7), and the first co-development was Jubilee Garden at Sha Tin depot in 1983.

**Table 4.7** List of KCRC property co-development projects, 1983-98.

Project	Station	Developer	No. of residential units	Total residential floor area (m <sup>2</sup> )
Hanford Garden	Tuen Mun LRT	Hang Lung	n.a.	88,000
Ho Tung Lau	Ho Tung Lau KCR depot	Sun Hung Kai	n.a.	271,660
Jubilee Garden	Sha Tin KCR	Cheung Kong	2,260	n.a.
Manlai Court	Tai Wai KCR	Cheung Kong	640	43,850
Pierhead Garden	Tuen Mun LRT	New World	1,400	91,400
Royal Ascot, Phases I & II	Fo Tan KCR	Sun Hung Kai	2,500	271,656
Sun Yuen Long Centre	Yuen Long LRT	Sun Hung Kai	1,072	66,430
Sun Tuen Mun Centre	Tuen Mun LRT	Sun Hung Kai	4,500	200,000

*Source:* KCRC's annual reports, various years.

### *Others*

Finally, less visible than the property companies but nonetheless important, is the involvement of private organisations in property development. They are usually owners of a block of building(s) who consider the re-development of the existing buildings to be a financially rewarding investment, either because of the fact that the existing building(s) is/are too old or dilapidated or the development potential of the land has not yet been fully exploited. Due to the capital intensive nature of property development and their lack of professional knowledge in this particular field, these organisations form a joint venture agreement with a commercial property developer who is responsible to finance the construction costs and to provide all necessary professional expertise. The profits of the project will then be divided between the two parties according to a pre-determined formula, either in the form of cash or proportional floor space of the building, after its completion. A recent example is the Cheung Kong's Deerhill Bay development in Tai Po. Its joint venture partner is the Chinese Anglican Church in Hong Kong, who provided the 1.96 million square feet site. In return the Church has the right to retain one-third of the apartments for long-term investment upon completion.

**Table 4.8** Developmental phases of Hong Kong property developers.

Phase	Period	Characteristics of property firms	Primary residential developments
I	1945-71	Many Chinese individual developers, and 4 dominant British hongts.	Tenement buildings and later single high-rise buildings.
II	1972-81	Emerging Chinese public firms, but British-controlled firms still dominant	Single high-rise buildings and small scale estate developments.
III	1982-91	Dominant large Chinese firms, shrinking of British-controlled firms, and emergence of overseas Chinese firms.	Dominantly large scale residential estates.
IV	1992-present	Public-sector development agencies increasingly grow large, rise of medium-sized firms, but large firms still dominate	Mix of small, medium and large scale residential developments.

In sum, a better understanding of the Hong Kong property developers can be achieved by positing four significant phases in its development as shown schematically in Table 4.8. These phases tend to coincide with the economic and political shifts in Hong Kong. Before 1971, the structure of housing provision was largely a reflection of the political domination of the British. In 1972, the Chinese developers made a triumphant entry to the scene largely because of their economic power. In 1982, the political factor again provided a major stimulant for change leading to an apparent replacement of the British interests with those of the Chinese. Finally in 1992, the large Chinese property companies became much more prominent. Overall, a pattern has evolved of a conglomeration at the top with a proliferation of subsidiaries at the bottom. Between them are groups of medium-sized firms and some overseas Chinese-controlled public companies. In other words, a pattern that parallels other industries in Hong Kong, though arriving a little later in the case of property development after the deregulation of the banking system in 1976.

## Conclusion

From the preceding discussion, it can be seen that the changing economic and political conditions of Hong Kong provided the opportunities for the rise of



powerful Chinese entrepreneurs. But how that opportunity was being exploited was determined by the Government land, housing and planning policies at that time. The following chapters are therefore structured to flow from the development process in providing owner-occupied housing, to the property developers' economic power in the residential market, then their political power in the Hong Kong economy, and finally to considerations for the future structure of owner-occupied housing in Hong Kong.

## CHAPTER FIVE

### THE OWNER-OCCUPIED HOUSING PROVISION IN HONG KONG

Housing provision encompasses production, distribution, exchange and consumption. To understand a specific structure of housing provision, it is necessary to look at how housing is being produced.

The conclusion we reach is not that production, distribution, exchange and consumption are identical, but that they all form members of a totality, distinctions within a unity. Production predominates not only over itself, in the antithetical definition of production, but over all other moments as well. The process always returns to production to begin anew. ... A definite production thus determines a definite consumption, distribution and exchange as well as **definite relations between these different moments**. Admittedly, however, **in its one-sided form**, production is in itself determined by the other moments. For example if the market, i.e. the sphere of exchange, expands, then production grows in quantity and the divisions between its different branches become deeper. A change in distribution changes production, e.g. concentration of capital, different distributions of the population between town and country, etc. Finally, the needs of consumption determine production. Mutual interaction takes place between the different moments. This is the case with every organic whole (Marx 1973, quoted in Clarke & Purvis 1994, p.1092, emphasis in original).

This famous statement of Marx's, taken from the *Grundrisse*, indicates a broader 'antithetical' definition of production, and states that '[t]he [capital circulation] process always returns to production to begin anew'. In other words, in looking at housing provision, one needs to look at the moment of production as the key moment in transforming the whole.

In the production of housing, there is a whole range of institutions and interests, that is, the agents, involved. These agents, as well as the relations that are



established between them in the production process, can vary. Chapter 3 has explained that a specific form of housing production is an articulated combination of conditions, relations and means of production structured in a relation into which each one of the defining elements specifies the condition of existence of the others. In this study, property developers are placed as the key agent in the Hong Kong owner-occupied housing provision. However, to facilitate housing development, they need to negotiate with other agents, in particular the Government. The process of negotiation is one of structured interaction, a bargaining within certain sets of changing rules. These interactions can be defined as a game in so far as games are rule-governing behaviours where outcomes are uncertain (Short, Fleming & Witt 1986, p.2).

In such context, this chapter provides a comprehensive analysis on the housing development process in Hong Kong. From it, new insights and clarification of the patterns, causes and trends of housing development, and actions and behaviours of property developers are systematically presented.

### **Forms of housing production**

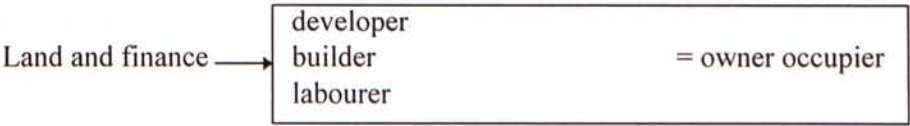
Housing can be produced in many ways. Cardoso and Short (1983) identify four different forms of housing production (Fig. 5.1).

#### **(a) self-produced housing**

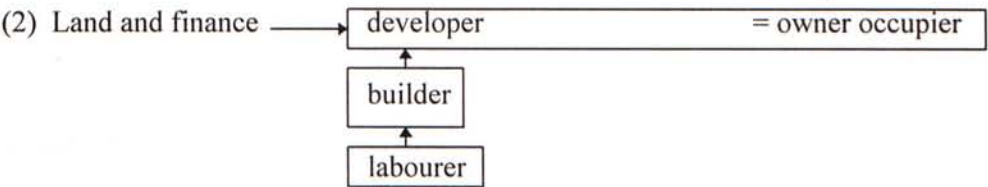
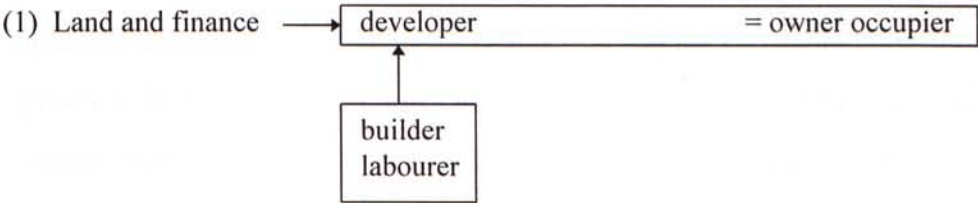
Self-produced housing production (see Fig. 5.1a) corresponds to the non-existence of any type of housing market. Values are created for use rather than for exchange. Owner occupation in Third World countries belongs to this form of housing production, the occupier being the developer, builder, labourer and tenant.

Conditions of production	Relations between agents of production	Forms of housing consumption
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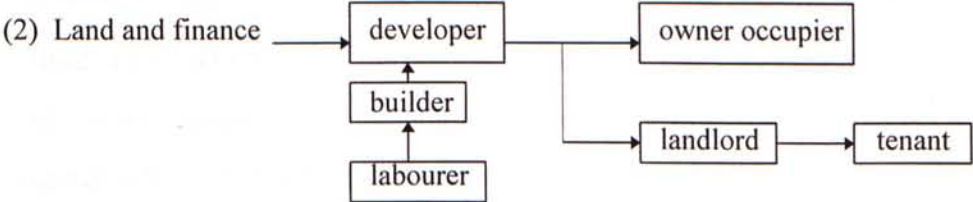
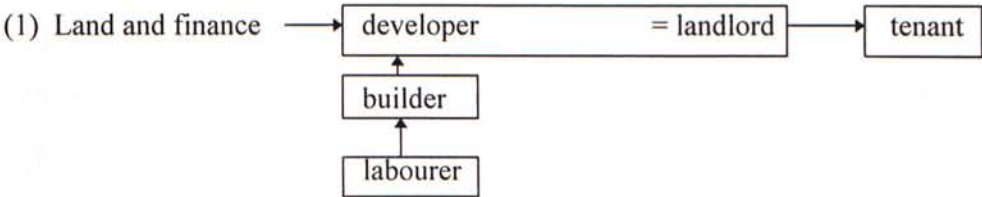
(a) Self-produced housing



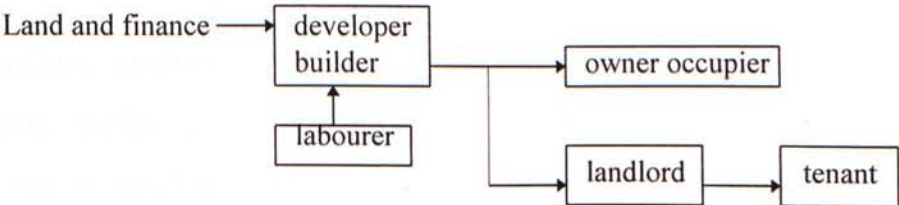
(b) Individual contract production



(c) Institutional contract production



(d) Speculative production



**Figure 5.1** Forms of housing production.  
Source: Cardoso and Short (1983), Fig. 2.



(b) individual contract production

This form of production (see Fig. 5.1b) reflects two fundamental processes — first, the separation between the owner and consumer of the product, on the one hand, and the labour process, on the other; and second, the separation of labour from the means of production. The eventual owner of the housing assembles the land necessary for building, and either self-finances the construction of the house or obtains finance through formal or informal channels. Because of the individual nature of the process of production and the consumer control of the product during the production phase, this form can provide relatively high quality housing. Thus, only the very rich can afford to employ builders on an individual contract, as in Figure 5.1b(2).

(c) institutional contract production

The separation between labour and the means of production is now matched by the separation between the consumers and the control over the production of the product (Fig. 5.1c). Institutional developers include the local governments, the central state, and companies that sell [Fig. 5.1c(2)] and/or rent dwellings [Fig. 5.1c(1)]. Large amounts of land are now necessary, since many dwellings, rather than individual dwellings, will be constructed at the same time. Housing for rent is the predominant tenure type associated with this form of housing production, though not necessarily the only one. Owner occupation can also be linked with this productive form.

(d) speculative production

A mass market is the most important condition for this form of housing production (see Fig. 5.1d). Producers generally do not build to order, but instead adjust housing starts and completions in relation to demand conditions and price and cost expectations. When demand is on the down-swing, firms may lengthen completion lags, and may quickly reduce starts. In periods of

demand expansion, speculative producers raise completion rates, and initiate new starts.

In this respect, the production of speculative housing has a number of specific features that can distinguish it from other types of housing production (Short *et. al.* 1986, p.37-38):

1. Land is an essential element, which brings developers into direct contact and sometimes conflict with landowners and with the whole system of land use planning both at the national and local levels.
2. The circulation time of capital employed in the housebuilding sector is comparatively long. Money has to be spent on labour and materials, and the long construction period means that capital is not realised until many months elapse and the house is sold. This means that the housebuilding sector can be very reliant on external sources of finance to bridge the gap between production and realisation.
3. The final product is expensive. The immediate purchase of a dwelling is beyond the reach of all but the wealthiest of households. The speculative housebuilding industry can exist only through some mechanism that enables households to purchase the dwelling but phase the repayments over a period of years. Bank loans fulfil this role, but this means that the health of the housebuilding sector is crucially dependent on these sources of finance.
4. The consumption of housing requires infrastructure investments. On the one hand, there is the physical infrastructure of roads, pavements, sewerage and basic services of lighting and others necessary before housing can be adequately consumed. Often there are statutory levels laid down for such provision. On the other hand, there is the social infrastructure of shops, schools and cultural facilities that may or may not have such similar



statutory levels but nevertheless are important elements in housing consumption and are used in households' housing choices. Frequently, developers seek to pass the infrastructure cost on to public authorities.

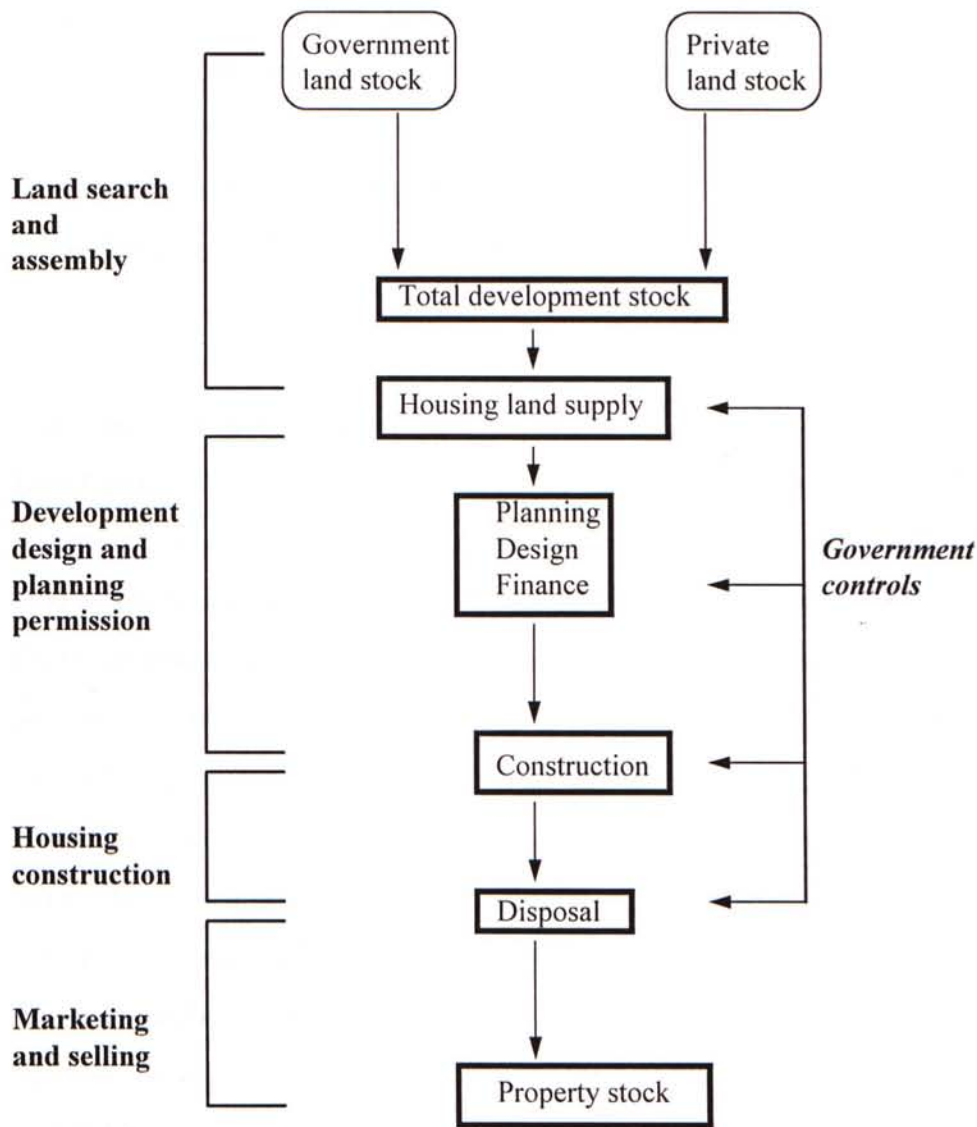
In Hong Kong, owner-occupation is closely associated with the speculative form of housing production. Also, there is a tendency for integration between housing production and the production of the total surrounding environment, including social and physical elements. Housing production now increasingly tends to mean production of the entire physical space under the control of one single big property company. In other words, developers are building a community instead of just building houses.

### **The housing development process in Hong Kong**

At its most simple, residential development can be likened to any other industrial production that involves the combination of various inputs in order to achieve an output or a product. In the case of residential development, the product is a change of land use and/or a new or altered building, and the production combines land, labour, materials and finance.

In Hong Kong, the process of residential development can be summarised as a series of stages (Fig. 5.2). These stages are interrelated, but temporally separate, activities. Although the operations are presented in sequential fashion, the real process is more complex, and a developer is likely to be involved at various stages of the production on different sites.

At first sight, developers may seem solely passive reactors to external forces. This is certainly how the problems of speculative developers ideologically are treated within most political and polemical debates. Yet such passivity is misplaced as developers' drive for profit plays a determining role. The way in which each developer arranges its development process determines the firm's



**Figure 5.2** Housing development process in Hong Kong.  
*Source:* adapted from Poon and others (1995), Fig. 1.

individual relation to those external pressures and, in total, firms’ actions help to determine the characteristics of the markets in which they operate. At the same time, government’s regulatory mechanism oversees the whole development process, and involves four key types of controls: (i) land, (ii) planning, (iii) building, and (iv) selling.

**Land search and assembly**

Land assembly is a central element in housing provision because of the effects it has both on the cost of housing and the way it is produced. The way in which



governments influence the release of land for building through planning and development rules will therefore be crucial. This also provides a further means to influence the production system, by regulating the location and volume of new housebuilding. In Hong Kong, developers acquire land directly from government and/or land already leased to the private sector.

### *Acquiring government land*

Developers can acquire government land by means of public auction, public tender and private treaty grant. At public auction, the Government's basic policy is to sell land to the highest bidder<sup>1</sup>, subject to an un-disclosed reserve price below which the Government will withdraw the land from sale. The successful bidder will have one month's time to complete the purchase and pay in full the purchase price that is called land premium. In public tender, land is not sold to the public but to the user who is strictly defined. Sales by tender have become more popular since the 1980s when the Government often requires the developer to build and surrender part of the development on completion for government use. Land for community purposes such as public housing, home ownership schemes, public utilities, schools, churches, clinics, welfare and certain charitable purposes is usually granted by a private treaty grant. However, the land sale in Hong Kong either by public auction or public tender is different from the selling of land under a freehold system. It is the sale of the land lease, not the land.

Hong Kong has a rather peculiar land tenure system.<sup>2</sup> Except for one piece of land, that is the land on which St John's Cathedral in Garden Road stands (Wu 1983, p.2), all lands in Hong Kong belong to the Government. Lands are regularised into land lots that are then allocated as leaseholds to private users for a fixed period of time. Lands on the Hong Kong Island leased in the nineteenth century generally carried a 999 year lease. All privately held land parcels in the

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<sup>1</sup> The land sale policy has a long history. The first land sale took place on 14 June 1841, and was restricted to 50 lots only (Bristow 1984, p.23). Later, in 1960, the Government began to draw up an annual auction programme for the regular provision of government land (ibid., p.85).

New Territories were leased for a period of 99 years, beginning from 1 July 1898 and terminating three days before 30 June 1997. Most other land carries a 75 year lease, which can be renewable or non-renewable. Contained in the lease are clauses that specify the annual land rent and the type(s) of use that is (are) permissible on the respective land parcel. After 1 July 1997, the present leasehold system continues. Currently, the Hong Kong Special Administrative Region (HKSAR) government can issue new leases with terms lasting until 2047 through the existing land disposal system of public auction, tender or private treaty grant.

Such leasehold system allows the Government to derive substantial revenue from land; first by sale of land leases (or simply land sales); second from lease renewal; and third from alterations of lease conditions (will be discussed later). Table 5.1 gives the relative contributions of the different types of land revenues in the period 1974-90. Before the year 1985, revenues derived from land premium, whether in terms of the absolute amount or as a proportion of total government revenue, exhibited wide fluctuations, but were nevertheless consistently substantial over time — the percentage contribution of land sales revenue averaged 14.7 per cent in the period 1970-84. At times of falling property prices, such as what had happened in 1982-84, total land premium did experience drastic decline. However, even in this period an average of 11.85 per cent of the general revenue was derived from land sales.

But, starting from 27 May 1985, the revenue generated from land sales were limited by the *Sino-British Joint Declaration on the Future of Hong Kong* (the *Joint Declaration*) that was concluded between the Chinese and British governments on 26 September 1984. According to Annex III of the *Joint Declaration*, land sales by the then Hong Kong government during the transition period, that is from 27 May 1985 to 30 June 1997, was restricted to 50 hectares per annum. (Lands leased to the Housing Authority (HKHA) for the construction of

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<sup>2</sup> Detailed discussion of Hong Kong land tenure system can be found in Bristow (1984), Leung, C.Y. (1986) and Yeh (1994).



**Table 5.1** Revenues from land transactions, 1974-90.

in \$ million						
Year	Land sales	Lease modification	Lease renewal	Total land premium	Total government revenue	% of land premium in total revenue
1974	242.6	55.9	20.1	318.6	5,305.8	6.0
1975	211.7	63.3	12.4	287.4	5,973.1	4.8
1976	258.1	66.8	21.0	345.9	6,724.6	5.1
1977	350.5	137.4	69.4	557.3	7,575.8	7.4
1978	1,557.9	217.4	56.0	1,831.3	10,232.6	17.9
1979	1,647.0	299.8	34.0	2,007.8	12,557.0	16.0
1980	2,416.6	396.9	31.7	2,845.2	16,796.1	16.9
1981	9,972.1	768.5	29.2	10,769.8	30,290.3	35.6
1982	8,955.3	690.0	31.2	9,676.5	34,312.9	28.2
1983	4,678.8	314.2	55.2	5,048.2	31,097.6	16.2
1984	2,049.5	180.3	37.3	2,267.1	30,399.7	7.5
1985	3,592.9	653.0	21.3	4,267.2	36,342.5	11.7
1986*	3,688.2	183.6	23.2	3,895.0	43,695.0	8.9
1987*	519.8	120.2	116.0	756.0	48,602.0	1.6
1988*	296.1	134.5	30.4	461.0	60,875.0	0.8
1989*	308.7	28.1	28.2	365.0	72,658.0	0.5
1990*	180.1	3.0	28.9	212.0	82,429.0	0.3
<b>1974-90</b>	<b>40,952.9</b>	<b>4,312.9</b>	<b>645.5</b>	<b>45,911.3</b>	<b>535,867.0</b>	<b>8.6</b>

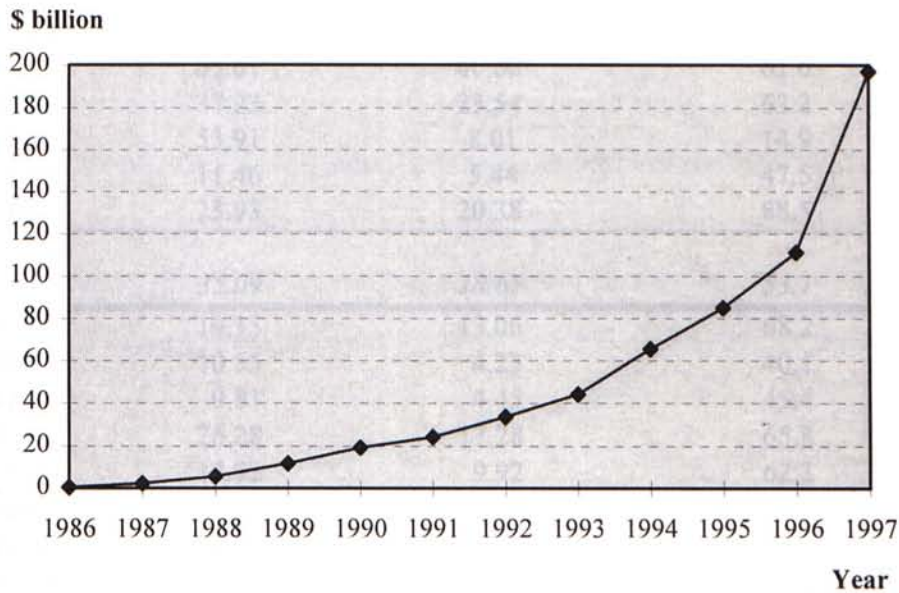
\* Following the implementation of Annex III of the *Joint Declaration*, the ambit of this revenue head was revised to include only land transactions completed before the coming into force of the *Joint Declaration*, i.e., before 27 May 1985, or land transactions conferring a benefit that expired before 30 June 1997. Revenue from land transactions that conferred a benefit that extended beyond 30 June 1997 and completed after 27 May 1985 were credited direct to the 'Suspense Account' of the Capital Works Reserve Fund for sharing between the former Hong Kong government and the Government of HKSAR.

Source: Yeh (1994), Table 1.

public rental housing (PRH) were exempted from this land sales limit). Also, proceeds from government land transactions, whether in terms of disposal of new lands or modification of existing leases, after deducting site formation costs, were distributed on a 50:50 basis to the then Hong Kong government and new HKSAR government, respectively.

Table 5.1 shows that starting from 1985, the percentage of land premium in total revenue was diminishing. But, at the other side of picture, wealth was accumulating via the Land Fund for the HKSAR government. The Land Fund was set up in 1986 to help generate reserves for the HKSAR government, and received half of all land revenues, after the deduction of development costs, up until the

handover on 30 June 1997. Figure 5.3 shows that the fund stood at \$430 million in 1986 and built up to a staggering \$197 billion in 1997.



**Figure 5.3** Net assets of Land Fund, 1986-97.

*Source: Express News, 30 September 1997.*

Data shown in Table 5.1 and Figure 5.3 produce the image that there was a substantial supply of government land to public. Yet, closer examination reveals that it was not. In fact, the amount of land sold at public auctions each year, not including lands granted under public tenders and private treaties, averaged some 35 hectares over the period 1978-85 (see Table 5.2). In relation to the size of the existing built-up area, which is only slightly larger than 10,000 hectares (or 100 sq km), and in consideration of the high costs of land formation in Hong Kong that had been estimated in 1986 to average \$1,400 per square metre by the Government (Li 1990b, p.92) due to the territory's rugged terrain and the high cost of land acquisition, such a level of new land acquisition was indeed quite high.

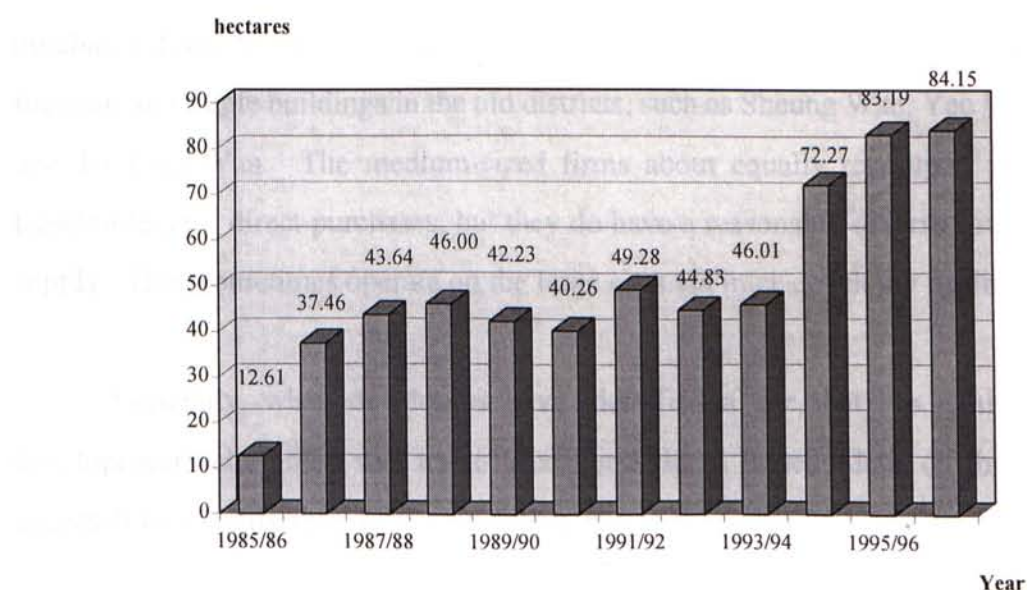
Figure 5.4 shows that the amount of residential land disposed (including land disposed under public auction, public tender and private treaty grant) by the Sino-British Land Commission. The 50-hectare land sales limit further reduced



**Table 5.2** Area of government land sold at public auction, 1978-96.

Year	Total area of land sold (hectares)	Area of residential land sold (hectares)	% of residential land in total land sold
1978/79	12.12	6.90	56.9
1979/80	42.30	26.27	62.1
1980/81	65.61	40.00	61.0
1981/82	37.22	23.54	63.2
1982/83	53.91	8.01	14.9
1983/84	11.46	5.44	47.5
1984/85	23.03	20.38	88.5
<i>1978-1985</i>			
<i>Average</i>	<i>35.09</i>	<i>18.65</i>	<i>53.1</i>
1985/86	19.15	13.06	68.2
1986/87	10.55	4.23	40.1
1987/88	9.81	4.45	45.4
1988/89	26.28	17.28	65.8
1989/90	15.92	9.92	62.3
1990/91	27.07	21.32	78.7
1991/92	22.87	17.04	74.5
1992/93	18.14	12.19	67.2
1993/94	16.85	13.29	78.9
1994/95	24.74	20.75	83.9
1995/96	89.29	21.14	23.7
<i>1985-1996</i>			
<i>Average</i>	<i>25.52</i>	<i>14.06</i>	<i>55.1</i>
<b>1978-1996</b>			
<b>Average</b>	<b>29.55</b>	<b>15.99</b>	<b>54.1</b>

Source: Census and Statistics Department, *Annual Digest of Statistics*, various issues.

**Figure 5.4** Total area of residential land disposed by the Sino-British Land Commission, 1985-97.

Source: <http://www.info.gov.hk/hb/chart27.gif>

the supply of residential land. Such limited supply of residential land and the high land cost induce developers to find other means to acquire land. Actually, the main source of land for residential development is not from the Government, but through cumulative purchases in the private sector of leased land with re-development potential. This is evidenced in Table 5.1. It shows that modifications of existing land leases that often involved re-development were of some importance. In eight out of 17 years covered (i.e., 1974-90), over 15 per cent of the total land revenues was derived from modifications of existing leases<sup>3</sup>. As a large proportion of new lands disposed by the Government was in the New Territories, the only source of land to provide housing in urban areas was to re-develop the built up areas.

#### *Acquiring land from private sector*

To overcome the limited supply of residential land, developers are keen to re-develop or rehabilitate the old urban core, or convert non-intensively used lands, such as dockyards, warehouses, farms and low density staff quarters to more profitable residential developments. However, strategies to identify the right site for re-development used by developers are closely related to a developer's annual number of completions, and more fundamentally related to its financial strength. Typically, the small-sized property companies rely almost exclusively upon purchases direct from the private leaseholders. The most favoured sites of these firms are the single buildings in the old districts, such as Sheung Wan, Yau Ma Tei and To Kwa Wan. The medium-sized firms about equally rely upon private leaseholders for direct purchases, but they do have a reasonably diverse source of supply. They sometimes operate on the large sites via inter-developer dealings.

Generally, when developers have identified a site that has a high re-development value, they will try to access individual leaseholders<sup>4</sup> (if they can successfully identify them). The price they pay to the individual leaseholders will

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<sup>3</sup> Lease modification premium is normally assessed on the basis of the difference between the land values before and after modification.

<sup>4</sup> In Hong Kong, virtually all urban properties are under multiple ownership. For instance, a typical 30-storey residential tower may contain as many as 480 titles (Lai, W-C.L. 1994, footnote 51).



depend on the market value of the flats and on the future value of the re-developed units. The prices they pay are usually 10 to 20 per cent higher than the market value (Lee & Wong 1988, p.55). These will act both as a sweetener for leaseholders and a compensation to them for their removal expenses.

Normally, the private developer will make conditional offers to those leaseholders who accept compensations. The offer will be effective if the developer can successfully acquire all the relevant properties, or at least the key ones, in the re-development site. Otherwise, the offer will be void. This conditional offer protects the interest of the developer in case that the last few leaseholders refuse to sell their properties or demand unreasonably high prices. In some cases, developers may compromise and pay higher prices for some flats. However, when the request is too ex-orbitant, developers may prefer to abandon the whole re-development project instead of working on a non-profitable one. The conditional offer will help to limit the loss of developers to the administration and liaison costs at the beginning stage of the re-development project. In such context, private developers enjoy more flexibility than the rigid government departments and the Land Development Corporation (LDC). Their prices paid to the leaseholders can be adjusted to market conditions immediately, and can also take into account the potential values of the re-development. In addition, private developers usually are not responsible for the re-housing of tenants and leaseholders.

For the large developers, they often have a specialised land search department. In order to avoid the high price paid in land auction, they spend more time in obtaining cheaper land. However, to amalgamate pieces of land into a sufficient size for re-development requires considerable search and negotiation. A much quicker way is to find a large piece of land owned by a single party.

A good example of this kind of re-development project is the senior government staff quarters that are located in high-valued residential districts like Tai Hang, Happy Valley, North Point and Kowloon Tong. These quarters were

offered by the Government to its senior staff at preferential prices years ago. The physical conditions of these buildings are still good. It is the re-development value of these quarters that attracts the interest of private developers. Usually, the plot ratio of these quarters is not fully utilised. Hence, it is profitable to re-develop these sites by constructing taller buildings that can fully utilise the plot ratio.

Another attraction of these quarters is that they usually have committees that are responsible for the daily administration of the quarters. These committees can serve as a link between developers and property owners. Therefore, it is easier for the developers to communicate with the property owners. Also, individual owners will have more trust in a party that represents their interest in the negotiation with developer on compensations. This will probably speed up the negotiation process. Besides, the areas of these sites are usually of considerable size. It is most cost effective to negotiate a single or several parties for a piece of large site than to negotiate with dispersed owners for a small site.

Several large developers are active in acquiring these government staff quarters. These include Cheung Kong, New World Development and Sun Hung Kai. For example, Cheung Kong acquired all of the 224 flats of Belcher Gardens in Pokfulam, which is an excellent residential site for high end market. The site had an area of about 200,000 square feet. The re-development provided a total floor area of about two million square feet. The compensation package from Cheung Kong to the property owners was very generous. It included both cash compensation and a flat of comparable size in the future re-development. Clearly, the high re-development value enabled Cheung Kong to grant this handsome compensation package to the property owners.

The other way to obtain a large piece of land for re-development is to convert company-owned assets into residential lands. Mei Foo Sun Chuen at Lai Chi Kok was the first attempt from private sector to covert obsolescent industrial land for the comprehensive residential development in early 1966. Formerly an oil depot of the Texaco Group, it has turned into a huge residential estate with more



than 27,000 flats housing nearly 90,000 people. The re-development took more than 16 years to complete, not including the amount of time required to relocate the oil depot facilities to Tsing Yi.

Another large scale re-development scheme was Taikoo Shing at Quarry Bay on Hong Kong Island. The site was formerly Taikoo Dockyard owned by the Swire Pacific. Swire Properties submitted the initial proposal to the Government in August 1973, and by March 1975, the scheme was approved. Indeed, the Government encouraged private developers to carry out development of large commercial/residential sites. For example, in 1974, following the oil crisis recession and local property downturn, the Government introduced some new development initiatives including a system of deferred payments of Crown Lease premiums.

The third way of land acquisition is to acquire a controlling interest in companies with substantial under-developed properties. Through gradual accumulation, Sun Hung Kai built up a large holding in Kowloon Motor Bus. The real motivation of Sun Hung Kai in this strategic move was not the bus routes, but the property assets — the bus depots in urban areas. Hang Lung was not interested in the canning operation when it took over Amoy Canning — the substantial land bank in the latter's balance sheet was the motivation. Similarly, Hong Kong Land acquired the Dairy Farm group of companies in November 1972 because the latter had large area of land capable of being developed in Causeway Bay, Pokfulam and other sites. The site at Pokfulam, for example, was developed to a major residential complex called Chi Fu Fa Yuen in 1976.

In such large scale re-development projects, private developers are not only required to pay a premium for lease modification, but also liable to adhere special conditions in the modified lease. For example, in the case of the re-development of the Whampao Dockland into a residential estate, the developer, Hong Kong & Whampao Dock Co., Ltd. (a subsidiary of the local conglomerate Hutchison Whampao) was required to pay a premium of \$390 million to the Government

(Lim 1985). Additionally, the developer had to form the sites for two primary schools and two secondary schools, build a public transport terminus and provide certain community facilities within the development. Further to the above requirements, the developer also had to construct and hand over to the Government upon completion an external road network of an estimated total worth exceeding \$200 million in association with the re-development.

Generally, the processing of these large scale re-development projects is a long and tedious undertaking (will be described later). The amount of time for the process will be much dependent on the complexity of the project. However, the huge profit obtained not only from the sale of a large number of residential units, but also from the renting of commercial premises make large scale urban re-development a very attractive alternative to direct acquisition of government land (see Table 5.3).

As this kind of re-development requires large capital investment, it is monopolised by large property companies; in some cases, they join hands to form a consortium to undertake the re-development. They not only have adequate financial resources and workforce, but also they are well connected with the financial capital, therefore, easy to get credit to finance their projects. For the Government, such development, on the one hand, is able to generate a considerable sum of money from land premium, on the other hand, save construction costs in the provision of community facilities like market, school, youth centre, etc., that is, such responsibility is transferred to developers.

### *Co-developments*

Starting from late 1970s and early 1980s, co-developments were becoming increasingly popular. Private developers in Hong Kong regard co-development projects as a source of opportunities for real estate business apart from acquiring land from the open market or the Government by tenders and auctions. Examples



**Table 5.3** Large scale re-development projects in Hong Kong.

Development Project	Developer	Year	Owner before re-development	Use before re-development	Area (ha)
Mei Foo Sun Chuen	New World Development	1968-78	Texaco Group	Oil depot.	9.5
Cosmopolitan Estate	Hutchison Whampao	1974-76	Whampao Group	Tai Tung Dockyard	2.2
Taikoo Shing	Swire Properties	1976-87	Taikoo Group	Taikoo Dockyard.	21.4
Wai Heng Chong Sun Chuen	Tai Cheong	1976-77	Hong Kong & China Gas Co. Ltd.	Gas plant.	2.0
Nan Fung Sun Chuen	Nan Fung	1977-78	Nan Fung Textile Group	The north portion is a service reservoir. The south portion is industrial land.	3.2
Chi Fu Fa Yuen and Pokfulam Garden	Hong Kong Land (Chi Fu Fa Yuen) Sun Hung Kai (Pokfulam Garden)	1978-81	Dairy Farms Group	Dairy farm.	9.1
Tsuen Wan Garden	Far East	1980-82	Far East Group	Amusement park.	25.1
Amoy Garden and Tak Bo Garden	Hang Lung and Amoy	1981-87	Amoy Group	Canning factory.	4.0
Beverly Villa	Cheung Kong	1981-82	Hong Kong Catholic Church	La Salle College	1.3
City Garden	International City (Cheung Kong group)	1983-86	Hong Kong Electric Group	The north portion (north of Wharf Road) is sea bed. The south portion (south of Wharf Road) is used for an electricity generation plant.	3.1
Whampao Garden	Hutchison Whampao	1985-90	Whampao Group	Whampao Dockyard	22.2
Tsuen King Garden	Sun Hung Kai	1986-88	China Dyeing Group	Police station and adjoining undeveloped land.	3.2
Belvedere Garden	Cheung Kong	1987-91	Nan Fung Textile Group	Spinning factory.	4.8
Riviera Gardens and Waterside Plaza	Tsuen Wan Property Co., Ltd.	1987-88	Texaco Group	Oil depot.	6.7
Bayview Garden	Hang Lung	1991-92	China Textile Group	Spinning factory.	1.4
Laguna City	Cheung Kong	1991-95	Shell Group	Oil depot.	8.8
South Horizons	Cheung Kong and Hutchison Whampao	1991-95	Hong Kong Electric Group	Electricity generation plant	15.5

Source: adapted from Wong, Chau, and Lai (1996), Table 4.7.

include the re-development agreements confirmed between private developers and schools, hospitals and religious bodies, such as Alice Ho Mui Nethersole Hospital, St Joan of Arc School and Canossian Catholic Mission. However, these public or

semi-public organisations participated in property development only in one-off basis. Meanwhile, there are public and quasi-government organisations in Hong Kong constantly or intends to be constantly involved in real estate co-development projects. These organisations are Mass Transit Railway Corporation (MTRC), Kowloon Canton Railway Corporation (KCRC), LDC, and finally, the HKHA that conducts the Private Sector Participation Scheme (PSPS).

In residential development, the biggest co-development projects are the development rights above Mass Transit Railway (MTR) stations (see Table 4.7). After having identified sites for railway construction, MTRC has to compensate the Government for the cost incurred in land resumption. Land premium based on current market value or the cost incurred by the Government in resuming the land, whichever the higher, has to be paid by the MTRC for the right to develop the space over the MTR stations. Once the land premium is agreed, the land for property development is granted to the MTRC in the form of private treaty grant.

The MTRC will then find a joint venture partner through internal tenders. Usually, only large private developers are invited to submit tenders. The successful property company is selected based on meeting all tender requirements and offering the best financial terms to the MTRC. A joint venture agreement will be negotiated between two parties, and their roles are as follows (Lai, T-K.P. 1991, p.30):

For MTRC:

- (a) acting as a coordinator to ensure efficient interfacing of railway elements and property development;
- (b) providing development brief indicating the maximum development content and minimum acceptable standard; and
- (c) monitoring the activities of the developer so as to ensure good concept standards and a high quality of workmanship and finish.



For developer:

- (a) paying the land premium, finance and interest, consultant fees and total construction cost;
- (b) employing project manager to manage the design and construction of the project, and
- (c) selling of completed development at prices agreed by the MTRC.

It should be noted that the MTRC is not liable for any loss arising from the development. Though the risks and costs on development are incurred solely on the developers, the developers are extremely eager to participate in the joint venture property development. The reason is that railway sites are considered as prime locations with excellent development potential. Some developers are even prepared to pay a substantial non-refundable front end payment to the MTRC for securing their development rights.

In a similar vein, the KCRC is keen to invite private developers to undertake co-development projects above KCRC's and the Light Railway Transit's depots and stations. However, it is not only public companies that are actively looking for partners of the joint venture, but also the Government and its statutory body, the LDC.

As discussed in Chapter 4, the LDC is the statutory body established by the Government to undertake the re-development of urban areas designated for renewal. As the corporation itself has very limited funds (an initial funding of \$100 million by the Government), the only way to implement urban renewal projects commercially viable is to bring in participants with the financial resources and ability to absorb the many surprises and unknowns that lay in the path of re-development. Another reason for adopting this approach is the uncertainty over how long the whole process of planning, land assembly and property development will take. The corporation, therefore, invites as many private developers as possible to submit offer for the joint venture participation through competitive

tendering. The major criteria for selecting successful developers are the financial return to LDC, financial strength of the developers, track record in marketing, quality of previous completed development and experience of the developers in project and property management.

The successful developers are required:

- (a) to make substantial up front payments to LDC;
- (b) to provide all the financing necessary to cover various project expenses from land acquisition, tenant compensation and re-housing, government land premium and construction costs;
- (c) to provide the necessary experience and expertise in project implementation; and
- (d) to bear all costs of re-development, including the burden of loss.

Property development is a risky business, especially in Hong Kong where the market is extremely sensitive to the slightest political or economic ripple. Urban renewal, with its lengthy lead time and extensive implementation period, is even more risky. In such context, only large private developers are willing to participate as joint venture partners of LDC (see Table 4.6). Given the expensive land and high real gains, participation in urban renewal projects offers another attractive option to acquiring and assembling land in urban core.

While the large developers are actively sought by the above public bodies for co-developments, small- and medium-sized firms play a key role in the small scale PSPS scheme. The major private firms involved include Chevalier Development International Ltd., Penta-Ocean Construction Co. Ltd. and Winfoong Investment Ltd.

The PSPS, which was introduced by the Government in 1977, is intended to draw the resources of the private sector to assist the provision of subsidised owner-occupied housing. Under the scheme, the Government provides land, and



invites private developers to tender for sites on which they are required to build flats conforming to certain specifications. Like other government land sales, the land premium tendered for a PSPS site is accrued to the Government. The successful developer owns the land tendered, and is responsible for design, building and managing the estate as well as bearing all financial costs involved. The flats built are sold to government appointed purchasers at prices set by the Government. Yet, the developer bears very little risk as un-purchased flats will be taken up by the Government at a guaranteed price.<sup>5</sup> Also, as a private development, the developer is free to sell or let the commercial properties in a PSPS project.

The PSPS is indeed a form of joint venture between the Government and private developers. As the Government owes social responsibility to its citizens, control has to be exercised on private developers who seek for maximum profit. The control, however, restricts the flexibility of the project. Also, since the sale of domestic units is guaranteed by the Government, there is a temptation for the developers to keep building costs as low as possible, sometimes at the expense of quality and workmanship, to maximise profit. The result is that PSPS flats have often been regarded as second-class HOS flats<sup>6</sup> (HKHA 1996b, p.37). And, unlike the HOS flats, the sales of the PSPS flats are transactions between developers and purchasers.

In sum, sites for new housing stock came from two primary sources: new land and allocated land under some developed uses. The supply of the former has been sluggish, and was constrained by the 50 hectares land sales limit in the transitional period. Although a flexible attitude was adopted by the Chinese government in the past (see Fig. 5.4), application of exceeding the 50-hectare rule required the concurrence of the Chinese government, and variations on the rule meant time had to be assigned for negotiation. Also, the new land supply came

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<sup>5</sup> However, if the actual selling price of the flats is higher than the guaranteed price, the surplus will accrue to the HKHA funds.

<sup>6</sup> There have been criticisms from owners on the quality of PSPS flats. The latest complaint came from owners of On Ning Garden in Tseung Kwan O, where cracks in walls, seeping water and crumbling ceilings could be seen throughout the six 40-storey blocks. The ground was also uneven, and the walls at the entrances to some of the blocks were tilted (*SCMP*, 11 November 1997).

primarily from the New Territories. Between 1980 to 1993, the average annual share of the new land supply of the urban area was only 43 per cent of the total land supply, with a range of 7 to 80 per cent (Wong, *et. al.* 1996, p.99). Furthermore, the new residential sites in the territory sold by government auction and tender were indeed very small in terms of size compared with those for large scale housing development obtained by lease modification. Therefore, it is perhaps not surprising to find that approximately 160 hectares of allocated land has been converted for housing use since 1976 (*ibid.*, p.93).

### *Land banking*

Land is a scarce resource in Hong Kong and a basic requirement for developers. To ensure continued production, developers often hold supplies of land greater than currently used. McDonald (1978, p.33-34) provides a summary of the reasons for holding land banks. They are mainly necessary to cope with the uncertain flow of suitable sites, and they help to ensure continuity, flexibility of response, cushioning for delays on specific sites, a spread of development between areas, economies of scale in relation to infrastructure, an influence over planning decisions through the assembly of sites, to achieve a practical local monopoly and to benefit from enhanced land values.

Usually land without official consent, such as agricultural land, can be obtained at a very low cost, and would therefore have extremely high planning profit potential. But cheap land can be dear land. First, cheap land with no planning permission, may have no prospect of receiving any and, even if it does, may in the long-term be laden with infrastructure costs and marketing difficulties. Second, it requires the developer to undertake lengthy negotiations to obtain planning approval. Thus, a variety of sources (Knox 1995; Short, Fleming & Witt 1986, p.57) suggest that size of the firm is a crucial influence on land banking activity. Only large developers have the financial flexibility to invest in land, often buying counter-cyclically, that is to build up land banks during the slumps of the property cycles.



A notable example is Cheung Kong's 16,000 housing units Kingswood Villas at Tin Shui Wai. Cheung Kong started to buy the agricultural land piece by piece in 1978, and paid as little as \$100 per square foot in the beginning. The cumulative 53 million square feet agricultural site was finally converted to a huge residential estate in December 1991. The selling prices of units of the most recent phase of developments were between \$5,000 to \$5,300 per square foot (*SCMP*, 26 December 1997). However, financially successful for the developer, Kingswood Villas endured a high vacancy rate as high as 60 per cent in mid-1996 due to its remoteness (*SCMP*, 13 August 1997). Nevertheless, large property developers with strong balance sheets can afford to buy agricultural land and reserve in their land banks ready for development only in appropriate times.

Medium-sized companies, on the other hand, cannot afford to take risks on land for which they may not secure permission to build, or to pay the interest on large parcels of land that take a long time to develop. When they do get sites of suitable size, they therefore seek to maximise profits either by building blocks of flats at high densities or by catering for the top end of the market, building low-density semi-detached or detached houses in 'exclusive' areas. This leaves small firms to use their more detailed local knowledge to scavenge for smaller infill sites, where they will assemble the necessary materials and workforce, and seek to build as quickly as possible, usually aiming at the market for larger, higher-quality dwellings in areas with an established social reputation. In this context, there is a tendency that an increasing proportion of agricultural lands is held by large developers (see Fig. 4.6).

Another form of land banking activities, which is unique to Hong Kong, is holding land in form of Land Exchange Entitlements (LEEs). These entitlements were first issued in 1960 when the Government started developing the New Territories. During that time, residents of the New Territories, who had held the land in their family before the Convention of Peking in 1898, objected to their ancestral heritage being exchanged for cash. Also, as urban development spread to the New Territories, land prices rose, but compensation for the mostly agricultural

plots was restricted to that described under the Block Crown Lease<sup>7</sup>. In other words, the payments did not recognise speculative prices being paid for land at the time. The Government therefore instigated a policy of LEEs.

Instead of compensation, the policy offered land owners a Letter 'A' or Letter 'B'. Letter A was used where resumption (i.e., compulsory purchase) proceedings had not begun, but it was necessary to obtain early possession of a site. Letter B was used where resumption had been notified in the government gazette, and gave the owner the chance to surrender his/her land voluntarily before resumption for the right of future exchange. The registered owners of the letters could submit tenders for certain lots in the form of exchange entitlements they were prepared to surrender in return for the grant of a site. The exchange entitlements were converted to an 'area of entitlement'. Such land exchange system enabled land owners in the New Territories to receive financial benefits from local developments that took place from the 1960s. It also saved the Government money as it did not have to make compensation payments.

Property developers quickly saw benefits in acquiring LEEs for later use because owners of such letters could then tender for lots made available in the New Territories through the Land Department's six-monthly sales programme. Since such letters were assignable, a strong secondary market in these letters developed, thus allowing property companies to accumulate the equivalent of land banks.

The advent of the New Town Policy in the 1970s entailed a large scale acquisition of land in the New Territories. As a result, by the end of the 1970s, more than 20 million square feet of LEEs had been issued (*SCMP*, 25 June 1997). The values of Letter B jumped 1,000 times (*Ming Pao*, 6 May 1981). In fact, Letter

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<sup>7</sup> The Block Crown Lease specified whether the land was agricultural or building land. The leaseholder required to pay an annual rent called the Crown Rent. The Crown Rent was normally a nominal sum, and bore little or no relationship to the actual value of the land. For example, in the urban area, the typical charge was \$1,000 per lot, irrespective of size. In the New Territories, for new non-agricultural leases, the typical charges were \$300 for a lot under 50,000 sq ft, \$1,000 for a lot from 50,000 to 150,000 sq ft and \$2,000 for a lot over 150,000 sq ft, for agricultural leases the rent was only \$20 per lot (Wu 1988, p.227). Owing to inflation, the Crown Rent for land was negligible over times.



B allowed exchange on a metre-for-metre basis for building land given up and on a ratio of two to five for surrendered agricultural land, both weighted at the time of tenders for new land by the length of the time period from when the old land was surrendered, thus old Letters B were more valuable. For example, in January 1981, the price of Letter B issued in 1965 was \$2,400 per square foot compared with \$900-950 and \$600-650 that were issued in 1974 and 1977, respectively. So, once again, large developers had financial resources to accumulate LEEs through the secondary market. Over time, these Letters B gradually went into the hands of four large developers — Henderson (see Fig. 4.4), Chinachem Group, Nan Fung Development and Sun Hung Kai (*SCMP*, 25 June 1997).

The build-up of outstanding letters became a growing problem. Hence, in 1979, the policy was changed. The offer of LEEs was restricted to one half of the area of agricultural land surrendered with the remaining half being eligible for cash compensation, while full exchange of building land remained possible. The new policy worked well for a number of years, and the number of LEEs issued each year was reduced significantly. But, it became increasingly clear that there was not enough land to meet the commitments. The LEE policy was therefore abandoned in March 1983.

Although the Government ceased issuing Letters A and B, by that time, its outstanding commitment was about 35 million square feet of agricultural land, which would require about 14 million square feet of land for development to meet the promises made in Letters A and B (*ibid.*). To solve the problem, the Government began talks with major holders of LEEs, that is, the property developers. The outcome of these talks was the adoption of a currency value for outstanding Letters A and B that could be used in lieu of cash for payment of New Territories land transactions and a few sites in the urban area.

However, the redemption of outstanding commitments was slow. Unless the Government put up more sites in the urban area, developers would hold on to Letters A and B. Later, under the pressure from the Chinese side of the Land

Commission who asked for assurance that the letter commitment would be met by 30 June 1997, the then Hong Kong Government began to bring new legislation to clear the outstanding backlog.

Ultimately, the New Territories Land Exchange Entitlement (Redemption) Ordinance was enacted in April 1997. The ordinance means that the letters will no longer be valid for land exchanges after 1 July 1997 but bear the currency value stated on the letter. Currently, all traceable Letters A and B have been redeemed, and there now remains only about 648,530 square feet of the letters, which would be eligible for cash compensation at a cost of \$2.4 billion (*ibid.*). Thus, the era of developers obtaining land from the Government without bidding for it at auction ended on 27 June 1997. This means of land banking activity vanished. Nevertheless, the LEE policy had enhanced the growth of some large property companies in Hong Kong housing market.

In short, it is apparent that ways of land acquisition by property developers are strongly influenced by government policies. In the same vein, the size and location of land obtained influence what types of owner-occupied housing being produced. Simultaneously, they also affect how property developers deal with government in obtaining planning permission for residential development. Hence, the next section is to examine how planning control affects developers' strategies in housing development.

## **Planning permission, development design and finance**

### *Planning policies in Hong Kong*

In Hong Kong, the Government defines,

Town planning is the process of guiding and controlling the development and use of land, with the aim of promoting the health, safety, convenience and general welfare of the community. It seeks



to promote the right development in the right place and at the right time.<sup>8</sup>

In such context, the land use planning system restricts the range of choices available to developers in at least four ways: restricting the total quantity of housing land made available for development; restricting the location of the land that is made available; restricting the way in which the land is developed and altering the timing of development. All of these affect the profitability of development (Monk, Pearce and Whitehead 1991, p.1).

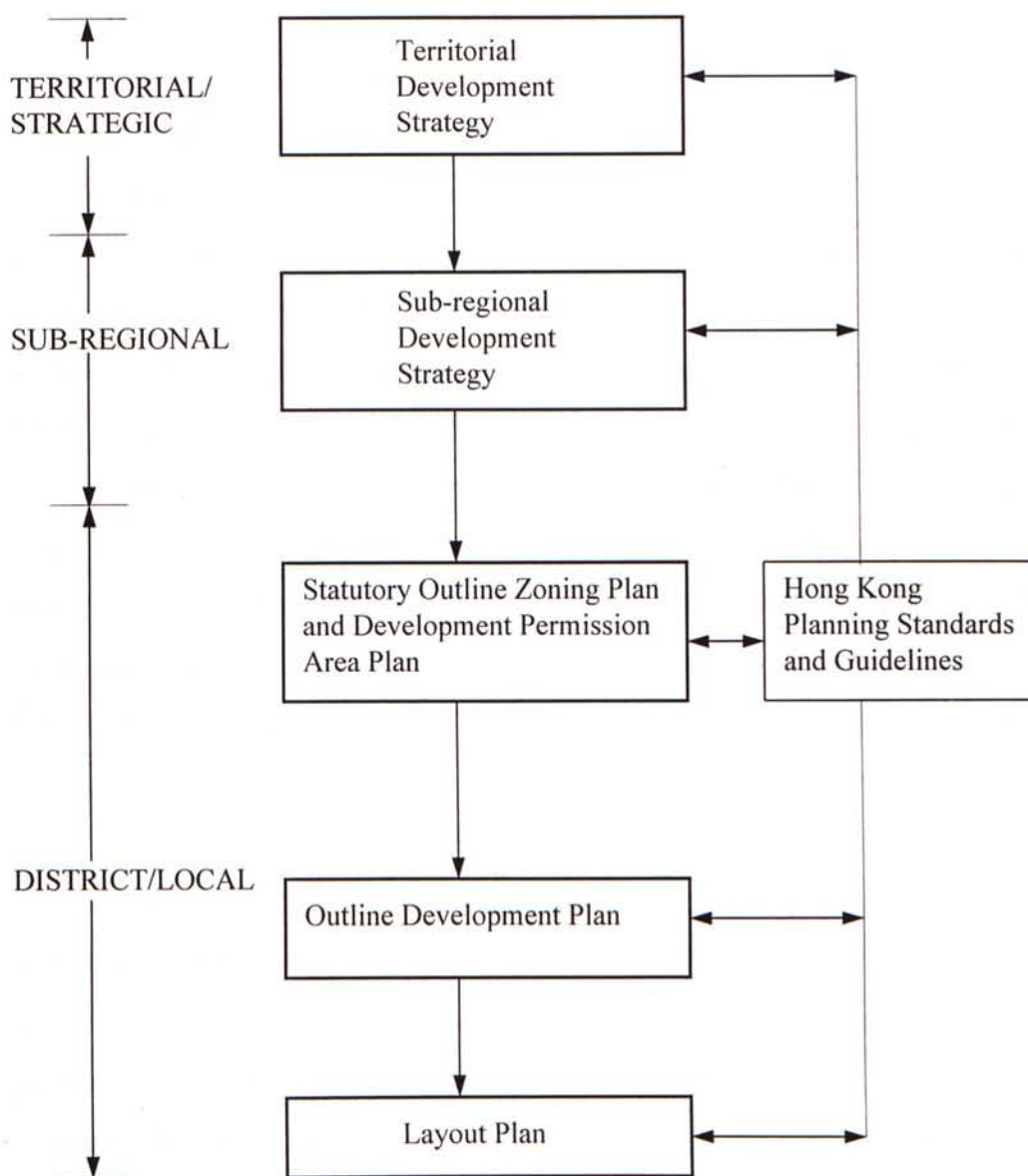
Figure 5.5 shows the basic planning principles in Hong Kong. The planning system is carried at three basic levels: territorial, sub-regional and local/district. The top two levels are conceptual. At these levels, the overall requirements in terms of population, land use, transport and environment are determined in the Territorial Development Strategy (TDS). The TDS, which was formulated in 1984, sets out the optional paths and directions of urban development to meet the long-term socio-economic needs and expectations of the people. Based on the strategy, the Planning Department prepares sub-regional planning statements for the five sub-regions: the North East New Territories, North West New Territories, South East New Territories, South West New Territories, and the Metro Area. As plans at these levels are primarily policy statements concerned with broad development strategies, they are government policies rather than statutory plans.

The third level of the planning hierarchy, district planning, represents the translation of the overall policy objectives and requirements into detailed statutory plans. Different parcels of land for various uses and development restrictions are designated on the plans. These district plans are the statutory Outline Zoning Plans (OZPs) prepared under the provisions of the Town Planning Ordinance<sup>9</sup>. Specific

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<sup>8</sup> It is extracted from the 1996 information sheet 'Town Planning' printed by Hong Kong Information Services Department.

<sup>9</sup> The Town Planning Ordinance was enacted in 1939. Although it forms the basis of urban planning in Hong Kong, it is not as comprehensive as similar legislation found in other countries (Yeh 1994,



**Figure 5.5** Planning hierarchy in Hong Kong.

Source: Planning Department (1995), p.7.

use of individual sites within the broad land zones indicated on the statutory OZPs are further elaborated on the Outline Development Plans and Layout Plans. They are used to guide and control developments in individual districts. Sometimes, they are employed by government departments as action plans for the preparation and release of land for public and private developments.

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p.11). It covers only the existing and designated urban areas, and has no direct power of development control and plan implementation. The main purpose of the Town Planning Ordinance is to empower the TPB to prepare and approve an OZP and to process planning applications for uses that need to be approved by the TPB.



On these plans, land in Hong Kong is zoned for different uses. The most common land use zones are Commercial [C], Residential [R], Commercial/Residential [C/R], Industrial [I], Government Institution and Community [GIC] and Comprehensive Development Area [CDA]. The statutory OZPs are prepared by Planning Department, approved by the Town Planning Board (TPB) and then gazetted to notify the public. Development restrictions may include controls on plot ratio, site coverage (the percentage of the building site to be covered by the building), building height and so on. There is a period of two months for the public to comment on the plans. Chaired by the Secretary for Planning, Environment and Lands, TPB consists of both official and unofficial members appointed by the Government. Thus, through TPB, the Government has total control over the use of land. Amendments to the statutory plans are subject to the full discretion of TPB in consultation with relevant government departments.

Yet, within the system, there is flexibility that allows change of land use. This is possible through the operation of a planning application system. A Schedule of Notes, a part of an OZP, specifies which uses are always permitted in all zones (Column 1) and uses always permitted in a given zone or may be permitted on request of planning permission (Column 2). Section 16 in the Town Planning Ordinance enables the TPB to grant permission, with or without conditions, for uses under Column 2 of the Notes. In this way, the statutory zoning plan system provides certainty to developers on exactly the types and intensity of use on almost any piece of land in Hong Kong.

#### *Lease modification for re-development*

As was noted above, the main source of land supply was private land. In fact, between 1987 and 1993, the average annual flat production from re-development projects was about 18,000 per annum, which amounted for 70 per cent of total annual supply of new domestic premises (Wong, W.Y. 1994).

Re-development projects involve modification of leases before development can proceed. Leaseholders have to apply for change in the lease conditions provided that the proposed change conforms to the OZP. The application of lease modification can be a highly complex and technical activity, requiring detailed knowledge of the appropriate legislation and policies, as well as local knowledge of how a particular planning authority operates. The whole process involves numerous stages, different divisions of the Lands Department and a number of other government departments. Within the Lands Department, an application has to go through the District Land Office/District Lands Conference (with representatives from other concerned government departments), Valuation Conference and the Legal Advice and Conveyancing Office. Other contributing government departments include the Land Registry, Buildings Department, Drainage Department, Highways Department, Planning Department, Transport Department, Environmental Protection Department, Water Services Department and Agriculture & Fisheries Department (if felling of trees is involved)<sup>10</sup>.

Given these intricate procedures, the success or failure of a re-development scheme depends on the skills and experience of the project director, the developer's representative in charge of the re-development, in handling the negotiations with the Government (Wan 1985). To be capable of dealing with government officials effectively, the project director should, apart from being proficient on the property field, be familiar with firstly, the procedures with which development proposals are processed within Government, and secondly, Government's general stand on these issues. Thus, a logical source of candidates for project directors of re-development schemes is the ex-government officials who used to be involved in dealing with development matters. Indeed, it is not uncommon, especially during a property boom, to see high ranking government officials with a similar background joining property development companies upon retirement or even before retirement.

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<sup>10</sup> Sometimes, Urban Services Department or Regional Services Department is involved if the trees to be felled are located in urban regions and the New Territories, respectively.



A notable example is the Whampao Dockyard Re-development. J.D. Johnston, the Managing Director of the Hong Kong & Whampao Dock Co. Ltd. is an ex-government official. Prior to joining Whampao, Johnston was the Principal Land Agent with the Government, and had 19 years of experience in the Hong Kong property field (*SCMP*, 28 February 1985). By 1980, he became Executive Director and General Manager of Whampao. He personally oversaw the Whampao Dockyard Re-development project right from the very beginning when the initial proposal was first submitted to the Government. He had numerous meetings with various government officials, some of whom he knew as friends, including town planners, traffic engineers, high-ranking officials and junior officials and those in between.

Yet, the use of right personnel-in-charge does not guarantee that the processing time can be shortened. In fact, there is no time limit for completion of this process. Simple cases take approximately one year, and more complicated ones may take several years to complete. In the case of Whampao Dockyard, it took nearly three years to get through the Public Works Department Conference and a further year before first receiving TPB's approval (Wan 1985). In this context, the developer needs to make realistic initial estimates of the likely time and cost of obtaining the appropriate permissions.

Clearly, the lease modification procedures have implications on the competitiveness of housing development industry. For instance, the length of time taken for lease modification may increase the cost for holding the site to the extent that small developers with limited cash flows may run into financial problems. In contrast, large developers have the financial ability to employ expensive 'in-house' experts, who often are ex-senior professional staff of the Lands Department, to handle lease modification cases for them. The experience of these experts helps the large developers to obtain approval within a shorter period of time and possibly at a lower land premium. The result allows, like that in land acquisition, the big grows bigger and small becomes smaller, or the developer would leave the market.

### *Development design*

By the time the lease modification application is made, the developer should formulate a planning brief. The brief is important for complex schemes as it sets the design parameters for an architect. The more rigorous and experienced developers produce briefs running to as much as a hundred pages, detailing everything from building height and colour of materials to precise requirements for toilets and taps (Cadman & Austin 1991, p.5).

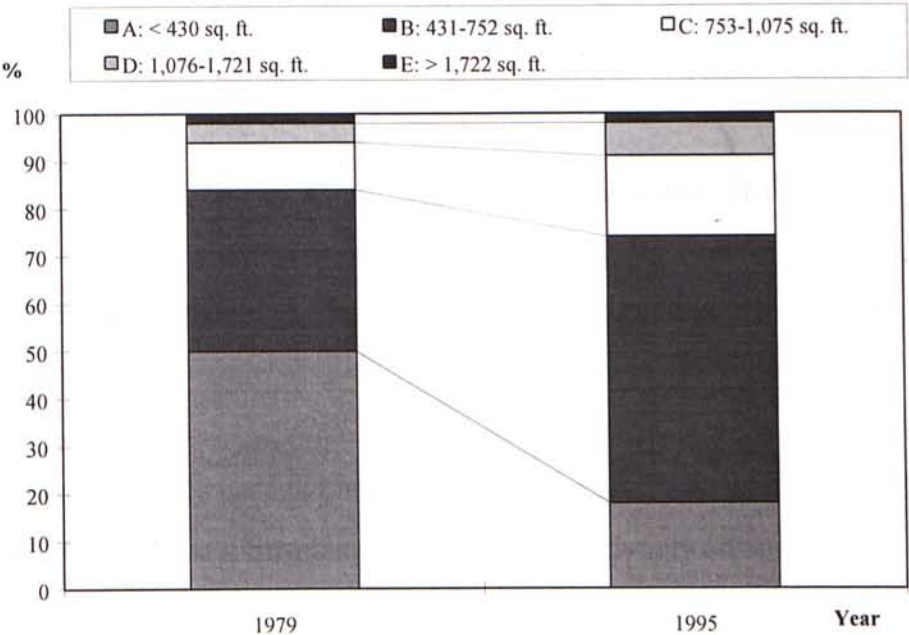
Generally, a developer will undertake an appraisal of the types and forms of development to be produced. Feasibility study on marketability (i.e., of being able to sell houses at a profitable price) and technicality will also be carried out. In the case of private sector development, this will include analysis of the market and the potential for profit in relation to the risk to be done. For the public sector and non-profit-oriented development, it will attempt to ensure that appropriate cost recovery is available. The study will also involve the assessment of the ability to connect the development to the appropriate service and infrastructure provision.

A design team will be formed to carry out the design in accordance with the most economic design solution arrived at the feasibility study. Given the need for speed of construction, together with the advantages to be derived from economies of scale and standardisation, the result is a strong tendency to build large and uniform housing estates. Moreover, the imperatives of profitability ensure that the housing is built at relatively high densities, and in case of public sector development, to relatively low standards. Actually, the housing estates tend to be uniform down to the styling of doors, windows and kitchen furniture.

In Hong Kong, the norm is a two-bedroom flat in a large private housing estate, but there is a growing demand for larger units. In the past, Hong Kong people were content with the medium size of 480 square feet per housing unit. However, as the population has become more affluent, it has an increasingly high aspiration for space standards in the built environment. Despite falling household



sizes<sup>11</sup>, the size of private residential units completed has been steadily increasing. Figure 5.6 shows that class B unit (saleable area of 431 to 752 sq ft) has become the dominant form of new private residential units. They contributed 34 per cent of all private housing units in 1979 but increased to 56 per cent in 1995. Also, Table 5.4 reveals that the average size of private residential units completed between 1992 and 1996 has increased 28 per cent (Leung, C.Y. 1997).



**Figure 5.6** Distribution of new private residential units by different classes, 1979 and 1995.  
Source: Moir (1996), p.50.

**Table 5.4** Average size of private residential units completed in the period of 1992-96.

	1992	1993	1994	1995	1996
Average size per unit (sq. ft.)	577.49	582.33	602.86	679.08	739.17
Size change (1992 = 100)	100	101	104	118	128

Source: SCMP, 4 March 1998.

In response to the change of consumers’ demand, since the late 1980s, the developers have to use some innovative designs to attract customers, particularly projects in the new towns. Estates are developed in a more fancy style, club house,

<sup>11</sup> The average household size decreased from 3.9 persons in 1981, 3.7 in 1986, 3.4 in 1991 and 3.3

shuttle bus service, commercial arcade, multi-storey car parks, big landscaped open space, colourful and great varieties of play equipment are commonly found. The segregation between each function is clearly marked by modern directory signages. Fountains or sculptures are erected at the entrance to emphasise the elegance of the portfolios. The whole housing design of these estates aims at giving ample privacy and breathing space to residents. Overall, this type of housing estate design reflects the socio-economic changes of Hong Kong.

### *Finance*

Housing development is financed, in general, by a combination of two types of capital funds. One consists of internal sources of funding, which are derived primarily from the savings of the property firm. The second source consists of external funding.

Three methods are used to obtain building finance externally (Chan 1987). The commonest type is debt financing. Developers usually rely on bank loans<sup>12</sup> as the major financial source. In order to obtain support from the banks, developers have to maintain a sound track record. The developer who can show consistent profitability and ability to repay loans satisfactorily and profitable completion of individual projects has always been looked on favourably when requesting further assistance. The more successful and large developers are, the easier they obtain the loans. In addition, banks tend to prefer the large developers as borrowers because they figure a big company is less likely to go bankrupt than a small one. In this way, they contribute to concentration and centralisation of large property developers in the real estate development sector of the Hong Kong economy.

Large developer can also finance new construction projects by issuing new shares to the public. It not only enlarges the equity base of the company, but also increases the credit-worthiness of the company so that it can raise more equity in

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in 1996 (Census & Statistics Department, 1991 & 1997b).

<sup>12</sup> There are various types of bank loans provided by financial institutions during the construction process. For details, see Cheung, S-S.D. (1987).



the future if necessary. The third method is rights offering, that is a securities floatation offering to existing stockholders according to their proportional ownership. Among the large developers, Sun Hung Kai is keen on using rights offering in raising funds.

Given the heavy dependence on bank finance, which fluctuates rapidly in availability and cost with variations in monetary policy and also taking account of the problems of speculative housing production, bankruptcies in the housing development industry are not uncommon in recession phases. Indeed, at the time of writing, the use of a high interest rate policy to stabilise the HK-US fixed exchange rate has resulted in developers finding all possible means to alleviate the burden of high interest payments. The most recent example was Sun Hung Kai sold 300 car parking spaces in its Greenfield Garden development in Tsing Yi to raise extra-money (*SCMP*, 4 February 1998).

## **Housing construction**

### *Building controls*

Once the planning and design processes are finalised, the detailed building plan is submitted to the Buildings Department. Through Section 16(1)(d) in the Buildings Ordinance, it empowers the Buildings Department to reject submitted building plans that contravene an approved or draft plan prepared under the Town Planning Ordinance. Section 16(1)(g) in the Ordinance can also lead to the disapproval which 'would result in a building different in height, design, type or intended use from buildings in the immediate neighbourhood or previously existing on the same site'. It provides a control mechanism against incompatible development within the neighbourhood, particular in areas not yet covered by a statutory plan. In addition, the Buildings Ordinance also contains a set of building regulations that set out detailed requirements related to the planning and design of buildings, including height, site coverage and plot ratio for controlling the bulk of buildings.

Normally, an Authorised Person will be appointed by the developer to be the coordinator of all plan submissions. The Authorised Person sometimes may act as the project manager of the project as well. The types of plans submitted to Buildings Department at various stages include the site formation plan, building plan, foundation plan, structural plan and drainage plan.

At the other side, the Buildings Department acts as the central processing centre for submissions to other government departments. It will circulate plans to all relevant government departments for comments. These departments may include Geotechnical, Highways, Drainage Services, Fire Services, Water Services, Electrical and Mechanical Services and the like. The Buildings Department will then vet plans under the Buildings Ordinance, taking into account the advices received from consulted departments. Unlike the application of lease modification, there is a statutory time limit of 60 days for consideration of first submission and major revisions according to the Buildings Ordinance and the Building (Administration) Regulations. For re-submissions, the time limit is 30 days.

After approval from the Buildings Department is granted<sup>13</sup>, the Authorised Person can then arrange site programmes for various stages of works including demolition, site formation, foundation, building and drainage works. Before commencement of these works, consent from the Buildings Department is required. In considering a consent application, the department will ensure compliance with any conditions imposed at approval stage and safeguard adjacent buildings and slopes against adverse effect. Again, a statutory time limit of 28 days is imposed for the department to process consent application.

In short, the nomination of Buildings Department as a co-ordinating role allows a single point of contact for developer or his/her representative (normally

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<sup>13</sup> Buildings Department grounds for approval or rejection are normally curtailed to cover the eight important aspects of a building plan. They are: (i) plot ratio and site coverage; (ii) building projections; (iii) open space; (iv) means of access and escape in case of fire; (v) fire resistance and



the Authorised Person) with the Government related to building approval. This method not only helps to streamline the consultation procedures, but also provides greater certainty and confidence for developers undertaking any development in Hong Kong.

### *Construction*

Under the Buildings Ordinance, all 'building works' have to be carried out by Registered Contractor, and the Buildings Department has to be notified of appointment to a particular work. During construction, the Buildings Department will inspect site, witness tests and monitor safety aspects to ensure compliance with technical and safety standards. Also, the Buildings Ordinance and the Building (Administration) Regulations state that the Authorised Person has to supervise the work periodically and the Registered Contractor continuously to improve site safety and quality.

Generally, large local developers have their own in-house design team, construction arms, material supplier, sales office and even property management subsidiary. For instance, Sun Hung Kai has made intensive efforts to integrate vertically into architectural and engineering (Sun Hung Kai Engineering Co. Ltd.); construction (Sanfield, and Manfield Building Contractors Ltd. and Shun Fai Construction Co., Ltd.); property management (Sun Hung Kai Real Estate Agency Ltd. and Hop Yip Services Co. Ltd.); finance (Hung Kai Finance Co. Ltd.); insurance (Sun Hung Kai Properties Insurance Ltd.); concrete supply (Glorious Concrete (HK) Ltd.); and fire prevention and mechanical engineering (Everlight Engineering Co. Ltd.).

Utilisation of an in-house design and construction team normally can reduce costs and allow quality control. With diminishing importance of construction cost, developers can pay more attention to quality and respond to

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compartmentation; (vi) lighting and ventilation; (vii) sanitary provision; and (viii) lane/street provision (Poon and others 1995, p.9).

consumers' complaints<sup>14</sup>. This also enables developers to create some degree of brand identification and product differentiation. Yet, developers having in-house construction team rarely carry out the entire construction work using their own resources alone. It is usual to sub-contract much of the work. This allows them simply to withdraw from activity during slumps as they have little overhead to maintain (Bacow 1990, p.5). On the other hand, sub-contractors are willing to work for major developers because of their familiar working schedules and guaranteed stream of work instead of competitive bidding.

Yet, traditional competitive tender procurement system is used by public sector to select contractors for subsidised owner-occupied housing construction. The Housing Department, the executive arm of HKHA, maintains lists of approved contractors whose performance is monitored on a regular basis. The department sets a maximum quota for each contractor to be allocated for jobs, and usually the contractor who offers the lowest price is awarded. To ensure consistent standards, the performance of companies with current contracts is monitored through the Performance Assessment Scoring System for building contractors and building services contractors. Under the score system, contractors' performance is evaluated on a monthly basis. The score then determines the contractors' future tendering eligibility. Also, the department maintains lists of approved suppliers for factory produced building components that are rigorously tested to ensure compliance with specifications. Nevertheless, even under the supervision of HKHA, subsidised housing usually is of a lower quality than private housing in terms of construction, design and management. Thus, the re-sale prices of HOS flats are below those of private-sector flats even if they are located next to each other.

On average, the construction lead time for a standard 41-storey public housing stock is 37 months — about nine months for foundation works and 28 months for the superstructure and fittings. Construction of the basic superstructure

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<sup>14</sup> For example, Sun Hung Kai established 'Sun Hung Kai Properties Club' in January 1996. It aims to provide information on properties developed by Sun Hung Kai and gather members' opinions on the developer's properties and services. Currently, the club has members numbering over 20,000.



takes place at an average rate of two floors per month, which is comparable to that in the private sector<sup>15</sup>. For private residential blocks, the actual construction phase may take from three to four years to complete, and the completion rate may be used as a variable by developers to adjust to changing demand conditions. In periods of brisk demand, the completion rate may be accelerated by overtime working, etc., to ensure quick sales. In periods of recession in the housing market, developers reduce labour inputs per unit of time so that they can avoid the financial costs of holding stocks of vacant completed housing units.

Regarding the construction technique, the adoption of standard domestic blocks in public and private housing estates, which began in the early 1980s, marks a turning point in the construction industry. Prefabrication is now being used widely for items such as staircase, facade panels, aluminium windows, panel walls for internal partitions as well as a range of factory produced components such as doors, floor slabs, cooking benches and sinks. The use of prefabrication techniques brings a lot of benefits including less time and reliance on site labour, easier site inspection as well as greatly improved work detail and quality control. In addition, contractors use tower cranes and large panel framework to speed up the concreting process for the building structures.

In short, speculative housing production is a risky business, and the fact that a delay between starting and completing a dwelling involves huge costs. Staley (1992, cited in Lai, W-C.L. 1994, footnote 47) has worked out that a one-year delay in the construction of new residential units could add \$1.1 billion to the cost of developing a five million square feet residential estate. Generally, the added costs to residential construction can vary from \$250 to \$300 per square foot, depending on prevailing interest rates. Also, the increase in construction expenses during the past few years has become a heavy burden on investment costs. In a bid to meet home buyers' aspirations for higher living standards, developers have upgraded the quality of developments that partly resulted in an increase in average construction costs for residential properties. It was estimated that construction

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<sup>15</sup> Information extracted from correspondence of HKHA dated 17 June 1997.

costs of quality projects were increased from \$700-800 per square foot in early 1990s to \$1,500 per square foot in mid-1990s (*SCMP*, 25 February 1998). Together with the skills shortage in building industry, developers are keen to use prefabrication and the greater use of standardisation to complete the project as fast as possible.

## **Marketing and selling**

### *Marketing*

Marketing is an essential tool in selling a development. It also helps promote, communicate and reinforce the corporate image of the development company. Where a development is carried out speculatively, the marketing process will start during the period of construction. The various means of promoting a property include (Cadman & Austin 1991, p.146): (i) advertisements in mass media; (ii) mail shots; (iii) particulars and brochures; (iv) site boards and site hoardings; (v) launching ceremonies; and (vi) show suites and offices.

In Hong Kong, a trend developed in the 1990s is the increasing use of television advertising to build up the 'brand' of a particular project. This includes using an actor's or actress' image to introduce the project that targets those who share the same characteristic and naming the particular development with a 'classical' name and an associated design/logo to create a common theme throughout the marketing process. Promotion not only concentrates on the space contained within the building and its amenities, but also its location — after all, the location has determined the developer's product and, in turn, the marketing strategy. A particular location is often attractive to certain occupiers, for example, new middle class families who need locations with good accessibility to the public transport as well as a clean environment.

On large developments, the developers commonly set up a show suite in the sales office on site to display plans and models of the scheme. The suite, which has been appropriately decorated, painted and fitted inside, is staffed by a group of



sales force to actually conclude the transactions. These sale officers not only talk knowledgeably to perspective purchasers who arrive on site to inspect, but also have full knowledge of the market, especially the strengths and weaknesses of the competitors in the surrounding areas. They also have the flexibility in price negotiation, at least within a certain limit. At the site sales office, refreshments are offered to provide a comfortable environment to negotiate the terms of sale. Furthermore, representatives of banks and solicitors are available to discuss mortgage arrangements and legal procedures respectively.

Besides the physical set up that aims to give every convenience to perspective buyers and enhance the sales, large developers offer various incentive packages to attract customers particularly in the recession period. The available incentives shown in Table 5.5 offered by developers in early 1998 indicate the anxiety of developers to sell their products. Generally, big developers, who have financial strength, closer ties with bankers and their well-established property-related subsidiaries, are able to absorb the extra development cost and risk. Small developers with less financial clout and support from banks are unable to offer

**Table 5.5** Sample of incentives offered by large developers in the early 1998.

Developer	Development Project	Incentive package
Sun Hung Kai	Villa Rhapsody, Symphony Bay, Sai Kung	<ul style="list-style-type: none"> <li>• provide a top-up mortgage of up to 15%</li> <li>• buyers can extend the date of purchases by up to 12 months after occupation, but they will be charged interest on the balance at 2% points above prime rate for the period</li> </ul>
Sino	Grand Dynasty View, Tai Po	<ul style="list-style-type: none"> <li>• arrange banks to provide mortgage with a maximum repayment period of 30 years</li> <li>• provide a 45 days' prolonged transaction period with no added interest</li> <li>• provide a 15% second mortgage with interest waived for the first 30 months</li> <li>• offer a 3-month transaction period with an option to change the unit at an additional 3% of the property price</li> </ul>
Henderson	Granville Garden, Tai Wai	<ul style="list-style-type: none"> <li>• offer a bonus package worth about \$800,000, including a car parking space, stamp duty charges, legal fees, and one year's management fees fully paid</li> </ul>

bargaining prices and attractive payment packages. Once again, it puts small property companies in a disadvantaged position in competing with big developers.

### *Pre-selling the uncompleted flats*

It is common practice in Hong Kong that public and private developers pre-sell to customers the uncompleted property at the construction stage. Such pre-sales are usually settled by staged payment<sup>16</sup>, with up to 30 per cent of the total price paid for during the construction stage and the balance payable within one to two weeks upon completion of the development. As the construction of the building may last at least one to two years, such a pre-sale arrangement can improve the developers' cash flow situation and, to a certain extent, reduce their risk in the projects<sup>17</sup>.

To purchase public owner-occupied housing units under the HOS/PSPS, applicants are mainly divided into two types: 'Green Form' and 'White Form'. Green Form applicants are mainly PRH tenants or those on the waiting list for PRH. If sitting tenants' applications are successful, they then have to surrender their flats<sup>18</sup>. White Form applicants come from families who are not PRH tenants but those who are living in the private rental units. They are also required to own no domestic property, and are subjected to an income limit. When the first HOS flats were put on sale in 1978, the maximum household income limit for private sector applicants was set at \$3,500 per month, which was raised to \$30,000 in April 1997.

Public response to the two schemes has been very positive. In the Phase 19B HOS, 89,476 application forms were received for the purchase of 10,282 units (*Express News*, 13 November 1997). Since the demand is always much greater

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<sup>16</sup> Staged payment in property transaction was invented by Y.T. Fok, a Chinese entrepreneur in 1954. Also, he introduced the marketing strategy to sell a building phase by phase, that is to sell several storeys of a building at different times (Feng 1996, p.227).

<sup>17</sup> On the other hand, under this pre-sale transaction, home buyers are asked to undertake the business risk of project failure that the developers should bear. In case of contract violations, developers usually have resources for a prolonged negotiation process, while home buyers are usually individuals without sufficient resources and experience to seek for compensations.



than supply, a ballot is held to select successful applicants. Of the total applications in Phase 19B, 56,826 were White Form while 32,650 were Green Form. The ratio was higher than 1.5:1.0. But despite the difference in response between the Green Form and White Form applicants, the quota for private sector to have successful application was limited to 20 per cent of each phase of the scheme; until recently, it has relaxed to 40 per cent. The Green Form applicants therefore enjoy a much better opportunity to buy flats than the White Form applicants. As a result, the most in need of home ownership has to rely on purchasing uncompleted private housing units in the housing market.

In the housing market, developers have or do not have to apply for consent from the Government, depending on which type of development schemes they belong to, before they pre-sell uncompleted units. Generally, land developments are governed by two types of scheme, namely consent scheme and non-consent scheme. The consent schemes normally include: (i) developments on land directly obtained from the Government; (ii) re-developments where Land Tribunal orders have been obtained to recover vacant possession; and (iii) in some cases, re-developments where lease conditions have been substantially modified. Under the consent scheme, pre-sale of uncompleted flats requires approval from the Director of Lands Department. Consent will be granted if developers can satisfy the following conditions:

- (a) More than 30 per cent of the total current land construction costs have been expended for the land development project; and
- (b) Consent has been obtained from the Buildings Department to construct the superstructure of the development.

For those re-developments where vacant possessions of properties are obtained through mutual agreement, forward sale does not require any approval from the Government.

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<sup>18</sup> From 1978 to 1995, 86,000 PRH units were regained by the Government through the HOS/PSPS (HKHA 1996b).

One of the important purposes to pre-sell the uncompleted flats is to test customers' response to the initial offer and price. Usually, developers pre-sell the premises phase by phase, and charge differential prices at each phase, that are higher prices for those units having desired features, such as locating at a higher level or having a view of the harbour<sup>19</sup>. In each phase, only a small number of the premises are put into the market, and developers will increase prices of units sold in next phases if the market response is good. And, during times of market depression, developers will reduce the asking prices to a below market level for the first phase of the sale and then gradually raise the prices back to market level in the subsequent phases. For example, Swire pre-sold Taikoo Shing starting in 1976 at an average of \$218 per square foot, by 1978 increased to \$370 per square foot, and by 1981 about \$982 per square foot (So 1982). Such pre-selling practice can easily create a buying momentum among potential customers and produce the psychological effect of pushing people to purchase flats as fast as possible.

This method of allocating private housing units not only generates publicity and excitement, but also practically issues an invitation to speculators. Speculation is, in fact, an established characteristic of the Hong Kong property market with property widely considered as a trading commodity (Leung, S.C-T. 1986, p.29). Buyers and speculators line up outside the developer's sale office nights before the formal sale in order to get the right to buy a pre-sale unit. The highest record was found on the sale of Villa Esplanada in Tsing Yi. A queue of more than 10,000 prospective buyers was formed at the sale office of Sun Hung Kai on 4 June 1997. The company received 30,400 applications, that is 189 times over-subscription on 160 units, and collected up to \$10 billion deposits in the registration dates (*Oriental Daily*, 5 June 1997).

To combat the speculative activity, Hong Kong government has started to introduce anti-speculation measures since November 1991 (described in Chapter 2). Under the recent measures introduced in January 1997, developers can apply

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<sup>19</sup> Li (1990a, p.7) finds that, on average, units commanding a view of the harbour are 22% more expensive than units without a view.



for pre-sale consents 15 months before a project's completion. Once approved, a developer must release all units in the project for pre-sale within six months, and must offer at least 20 per cent of the total units at each sale. For HOS and PSPS, the pre-sale can be arranged 24 months before completion<sup>20</sup>.

Apart from pre-sale to the public, private developers can sell their housing units through internal sales. Generally, developers will internally sell a very small number of units through their own estate agents or other estate agents before the public pre-sale. This practice is used as a price searching mechanism to set the correct market price for the later public sale. However, in non-consent development scheme, internal sale can be of significant proportion, for example, Cheung Kong sold 50 per cent (238 units) of Manhattan Heights project in Western District through private sales (*SCMP*, 3 May 1997).

Under the consent development scheme, there was no restriction on internal sale of uncompleted properties until 1992. In order to dampen excessive speculative activities in the property market, the Government restricted the amount of internal sale to 50 per cent in 1992 and subsequently to 10 per cent of the total number of units in 1994. Furthermore, for those flats sold through internal sale, purchasers are not allowed to re-sell before the completion of assignment deeds.

In the pre-sale transaction, purchasers have to complete a provisional agreement for sale and purchase at the developer's sale office, then a formal agreement for sale and purchase at a solicitor's office within seven days. Later, upon completion of the buildings, the Authorised Person and Registered Contractor need to certify suitability of occupation. An Occupation Permit will be issued by the Buildings Department stating the date and usage permitted. Following the issue of the Occupation Permit, a Certificate of Compliance will be issued signifying compliance with land and planning requirements. The units will

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<sup>20</sup> However, the deep recession triggered by the Asian financial crisis forced HKSAR government to relax the anti-speculation measures in May 1998. Details will be described in Chapter 7.

be handed over to the buyers who are required to execute an assignment deed. The whole development process is then finalised at this stage.

## Conclusion

Hong Kong has often been reputed as a showcase of *laissez-faire* economy. But, this chapter demonstrates that Hong Kong government intervenes significantly in the housing market. Through controls of land release directly as an owner and indirectly through broad land use/re-development stipulations in leases, it exerts a great influence on the supply side of the private housing market. Lately, the Government has intervened the selling practices of developers in a way to curb speculation. The Government also monitors housing development process through planning and building controls. As a result, the government intervention in housing production shapes the production regime under which developers operate. In turn, this fashions the size, location and style of housing developments, and consequently the structure of owner-occupied housing provision in Hong Kong. All these produce a repercussion in discouraging smaller scale developers and reducing the number of competitors in the housing market. Such end result is a good example showing that the unintended consequence of high concentration of large property developers in Hong Kong owner-occupied housing provision is derived from an aggregate of courses of rational and sometimes intentional government actions to upkeep the prosperity and stability of Hong Kong economy.

Inevitably, the dominance of large property developers in owner-occupied housing provision raises public concern and the mounting urges for the Government to further intervene. The most vocal demand is directed to curbing the soaring housing prices. It seems that major developers' activities are the cause of most property price escalation. In view of this, do developers have such power is the focus of the next chapter.



## CHAPTER SIX

### PROPERTY DEVELOPERS AND THEIR POWER

Private housing provision in Hong Kong is characterised by a relatively high level of market concentration. The reasons for this concentration of sellers have been discussed in the previous chapter. This concentration has inevitably raised serious allegations that these large property firms have market power in extracting monopoly in the private residential market.

Using Tseung Kwan O as a case study, this chapter looks at the extent to which developers enjoyed the monopoly power. Also considered is the extent to which developers can influence the decision-making process in the political arena. The chapter concludes with the overall proposition that 'power' exists in the structure of owner-occupied housing provision in Hong Kong.

#### **Developers' market power**

According to the latest statistics, in 1994 and 1995, the ten largest enterprises<sup>1</sup> had much larger total market share, both in terms of gross floor area and value added, in the end use group of residential buildings (Table 6.1). Also, in all end use groups, the percentage shares of gross floor area and value added of projects developed by the top ten enterprises were larger than their respective share of number of projects in both years. This revealed that the scale of development projects developed by these top enterprises were on average larger than that of other developers. Among the largest ten enterprises in 1994 and 1995, nine appeared in both years. Given such business concentration of residential development activity, there are reasons to question whether these large enterprises may have market power in Hong Kong. The following section therefore assesses the validity of this claim.

**Table 6.1** Business concentration of the largest ten enterprises in 1994 and 1995.

End use	Gross floor area (‘000 m <sup>2</sup> )		Value added (\$ million)		Number of development projects	
	1994	1995	1994	1995	1994	1995
Residential buildings	6,399.5 (60.3%)	5,883.0 (62.7%)	23,161.5 (56.3%)	14,132.1 (46.9%)	112 (27.8%)	95 (27.1%)
Commercial buildings	1,407.9 (38.5%)	1,908.1 (48.4%)	11,309.0 (42.3%)	8,504.2 (44.1%)	46 (22.1%)	40 (19.6%)
Industrial buildings	839.5 (37.6%)	965.6 (41.0%)	2,478.6 (47.6%)	2,424.7 (41.4%)	36 (35.6%)	37 (37.0%)
	<b>8,646.9</b>	<b>8,756.7</b>	<b>36,950.0</b>	<b>25,061.0</b>	<b>194</b>	<b>172</b>
<b>TOTAL</b>	<b>(52.4%)</b>	<b>(55.9%)</b>	<b>(50.6%)</b>	<b>(45.3%)</b>	<b>(27.2%)</b>	<b>(26.3%)</b>

Note: 1. Residential buildings included buildings purely for residential purpose, combined residential and non-residential buildings and flats built under the PSPS.

2. Commercial buildings included office buildings, hotels and boarding houses and multi-purpose commercial premises.

3. Industrial buildings included flattened factory blocks and warehouses.

4. Figures in brackets denote percentage shares to the respective total.

Source: Census and Statistics Department (1997a), Table 7.

### *What is market power?*

In a free market economy, individuals enter into relations (or exchanges) voluntarily. The free market eliminates authority-based allocation, coercive forms of labour and so on. By replacing authority with voluntary contract, the market economy seems to eliminate power. In this sense, the terms ‘economy’ and ‘power’ reject each other. Yet, especially in recent years, under the political economy perspective, market and power are interlinked. Keohane asserts that, ‘wherever, in the economy, actors exert power over one another, the economy is political’ (1984, p.21). Some radical political economists even claim that the economy (particularly the capitalist market economy) is a ‘system of power’ (Caposaro & Levine 1992, p.160).

In *Economy and Society*, Weber defines power as ‘the probability that an actor in a social relationship will be in a position to carry out his (*sic*) own will despite resistance, regardless of the basis on which this probability rests’ (1956, quoted in Brennan 1997, p.72). In concentrated (or imperfect) market, economic agents have the ‘capacity’ (i.e., ‘power’) to influence others. In oligopoly, there are

<sup>1</sup> Enterprises might/might not be companies quoted on the Hong Kong Stock Exchange.



few producers, that is, a smaller number controls larger shares of the market (in total production, sales, etc.). Oligopoly is also characterised by higher barriers to entry; in fact, barriers to entry seem to be the most important feature in maintaining the privileged position of the oligopolist. In such case, firms in this market structure are said to possess 'market power'.

'Firms have market power' means several things. Firstly, firms in concentrated markets may be price makers. Power in this sense means the capacity to impose a higher price and by implication inferior terms of exchange on other economic agents than would exist under more competitive market conditions. Secondly, large firms may be able to affect the other economic parameters, including output levels, technology and even tastes (through allocating resources to advertising). In oligopoly, firms possess an important power by lowering their production levels, hence increasing prices. Finally, firms have the power to affect other firms in an oligopolistic environment. Firms can, by pursuing different strategies, affect what other firms do, how much they produce, their price levels and even whether they enter or leave an industry.

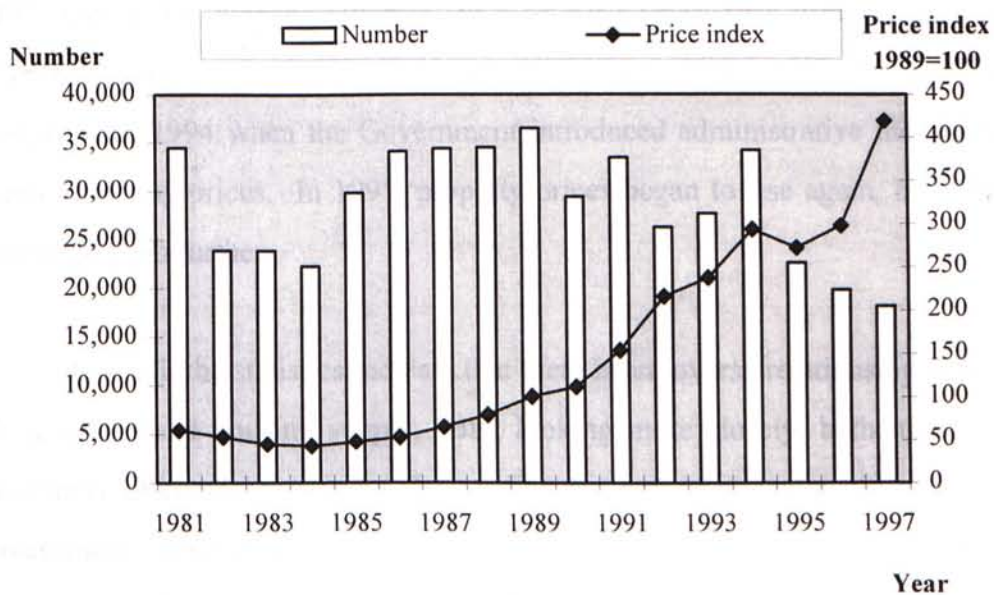
Another key feature of oligopoly is the interdependence among firms. Interdependence means that the best strategy for a firm is shaped not by the market but by the capabilities and strategies of rival firms. The commonest strategy is predatory price strategy. A firm may lower its prices in response to the possibility of another firm entering the market, thus driving it out. In this sense, oligopoly opens up opportunities for power over others. In addition to devoting resources to wealth making, resources can be channelled towards the transfer of wealth. Instead of taking price and demand levels as given, they are subject to change. And instead of 'deciding' anonymously, firms may devise strategies contingent upon the actions of other firms.

To what extent do property developers exert their market power in Hong Kong residential market? In order to examine the 'strength' of this power, it is first

necessary to explore the relationship between house price and housing production in detail.

### *House price and housing production*

Figure 6.1 shows the supply of private domestic units for the past 17 years. Housing output fluctuated broadly in line with general economic activity of Hong Kong, albeit with a much greater amplitude. The private housing supply reached its maximum between 1986 and 1989, when the number of units produced was between 34,000 and 36,500. Unfortunately, the supply then declined steadily to just under 19,000 in 1997. The housing shortage in private property market is further illustrated clearly in Figure 6.2, which shows the supply of new residential units as a percentage of the number of households. The percentage decreased quite steadily from 2 to 2.5 per cent in 1976-78, down to less than 1.2 per cent for 1996.



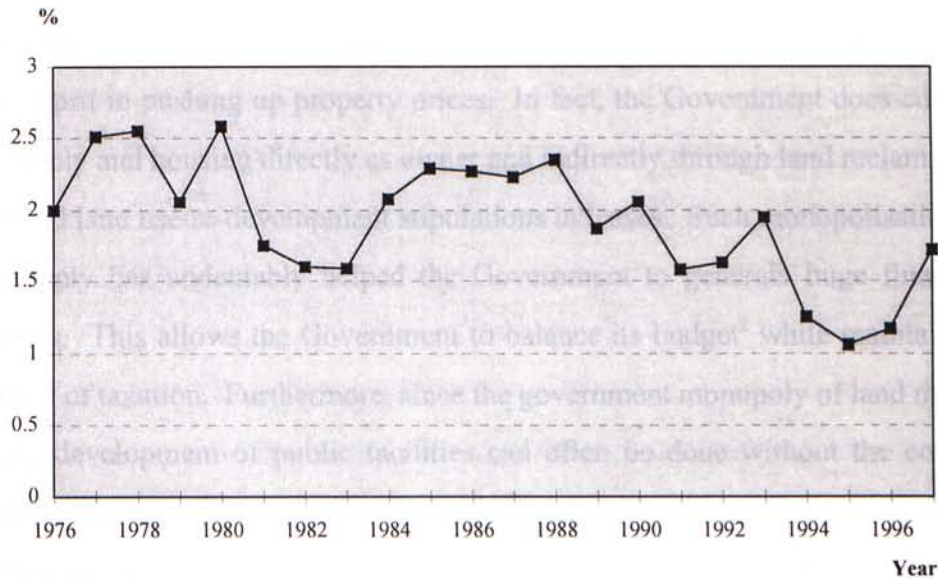
Note: 1997 was a provisional figure.

**Figure 6.1** Supply of private domestic units and price indices (all classes), 1981-97.

Sources: 1. Data for 1981-96: Rating and Valuation Department, *Hong Kong Property Review*, various issues.

2. Data for 1997: Census and Statistics Department (1998a).





**Figure 6.2** Percentage of new residential units over total number of households, 1976-97.  
*Source:* Lee, D.C. (1997) Fig. 2.

Figure 6.1 also shows the trend of the property price indices in 1981 to 1997. Generally, after the slump in 1984, property prices rose steadily until 1989 when the supply began to drop. As a result, the property price index rose quite sharply until 1994 when the Government introduced administrative measures to control housing prices. In 1995, property prices began to rise again, but supply decreased even further.

Overall, the statistics indicate that there is an inverse relationship between house prices and housing supply. But, looking more closely, both items were essentially affected by external forces, like interest rates, economic upheavals, government intervention, etc., rather than internal strategies adopted by developers. Moreover, while the general trend of property prices was on the upswing, the housing supply fluctuated widely. This reflects the inelasticity of housing supply in the shorter term: the building process is time-consuming such that new demands simply cannot be met quickly. In the longer term, it is clear that land shortages must ultimately constrain housing supply.

The question of land supply inevitably leads many people, including real estate analysts, to criticise the Hong Kong government's land sales policy as the main culprit in pushing up property prices. In fact, the Government does control land supply and housing directly as owner and indirectly through land reclamation and broad land use/re-development stipulations in leases. Such monopolisation of land supply has undeniably helped the Government to generate huge financial resources. This allows the Government to balance its budget<sup>2</sup> while maintaining low rates of taxation. Furthermore, since the government monopoly of land means that the development of public facilities can often be done without the cost of buying land, and this has been particularly important in the massive provision of infrastructure and human capital in terms of health, education and public housing (Schiffer 1991, p.191).

However, the criticism of the Government's adoption of a 'high land price policy' is insensitive to the fact that although the Government does set an annual land sale programme and a reserve price for each public land auction, it is the market that eventually determines the winning bid price. Generally, developers follow an optimal housing production path that is dependent on property price trend, construction and interest cost, etc. The method by which a developer estimates land value is (Cheng, 1993, p.66):

$$\begin{aligned} \text{land value} &= \text{gross development value} \\ &\quad (\text{gross saleable area after completion} \times \text{market price}) \\ &\text{less: } - \text{ construction cost} \\ &\quad - \text{ interest cost} \\ &\quad - \text{ other costs e.g., professional fee, administrative and} \\ &\quad \quad \text{marketing costs, etc.} \\ &\quad - \text{ fair developer's profit} \end{aligned}$$

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<sup>2</sup> Indeed, Smart (1992, p.199) discovers that the Hong Kong government has an obsession with balancing the budget, and this obsession can be explained by the colonial nature of Hong Kong before 1 July 1997. As the propose of making Hong Kong as a British's colony was to provide a site for British businessmen to do business in South China, British government would not provide any financial assistance to businessmen to do things in Hong Kong. The colonial Hong Kong government therefore had to find ways to maintain a balanced budget.



Normally, in a land auction, developers have an incentive to compete only if they are confident that the winning bid can result in a fair profit. However, in time of property boom, developers often go out of their way by paying exorbitant prices for sites that would leave them with little profit. Overall, the result of government land auction is a good indication of developers' expectations of future property price trend.

In the same vein, Ball (1983, p.112-115) also queries the effect of land prices on house prices. It is frequently suggested that high land prices cause high house prices. From this perspective, house prices are the sum of land costs, construction costs and developers' profit. Ricardian rent theory<sup>3</sup> and its modern derivatives (e.g., Ratcliffe & Stubbs 1996, p.251) argue, on the other hand, for the residual view of land prices where the price of houses is given. According to Gibb, McGregor and Munro (1997, p.1750), new housing is priced on the basis of the perceived market demand, but land is priced as a residual. That is, a standard rate of return is added to the cost of building, and in the light of knowledge about the maximum price likely to be obtained from the market, an upper bid for land is calculated as the residual (presented in the above formula). Based on this calculation, developers push prices and profit margins as high as the market will bear. Developers' expectations regarding sales and profits indirectly influence their original bids for the site and so push up land prices. Residential land prices therefore depend on the profitability of housing development; as a consequence, land prices have no direct causal relationship to the house prices (Hong Kong Justice & Peace Commission 1979, p.46).

The advantages often attributed to land monopoly, that is, the power to extort rents above competitive levels; the power to restrict supply; and the power to manipulate land uses over a large area in order to create more profitable 'rental

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<sup>3</sup> Ricardian rent theory, formulated by Ricardo (1772-1823), posits that the 'intrinsic' value of land (delineated as property) is determined by its productive usefulness (fertility in the case of rural land). Intrinsic value can be further enhanced by the nature of improvements placed upon, or incorporated into, the land. So, land value is the residual between production costs and selling prices. Hence, land values consequently do not determine anything, but are determined by demand and supply in the final product market.

contexts', offer only a potential within a market economy. They do not give the power to set price levels in real estate markets (Houghton 1993, p.264-265). Empirical studies indicate that speculation — not monopoly — is a more salient explanation for dramatic shifts in real estate prices, at least in the short term. Yet, speculation cannot be considered in isolation. Sudden demographic movements combined with interest rates, along with a host of other factors, can enter into plausible explanations for the rise of real estate values. Generally, it is the large increases in house prices that induce any substantial new housing output. The interlinkage of house prices and housing output means that both feed in each other. But, new housing production has fallen substantially over the period from 1995-97 (see Fig. 6.1), so significant shortages of owner-occupied housing appeared during the boom.

So the problem goes back again to the lack of housing supply. Actually, the developers' power in housing supply is tempered by land use planning policies and government legislation on land supply; the obvious example was the 50-hectare land sales limit imposed between 1985 and 1997. Development control means that there are effectively two markets in land: the market in land with planning permission for residential development and the market in land without planning permission where prices are lower. The scarce supply of land with planning permission ensures that developers have to bid at higher prices<sup>4</sup>.

Chapter 5 has established the fact that a large proportion of residential land has come from private land without planning permission. Given the Government's 'departmental division of labour' (Ng 1997, p.47), it not only made smaller, start-up operations difficult to enter the housing market, but also slowed the conversion of these lands to residential use. Bristow (1984) and Cuthbert (1991, p.585) identify that there is no single agency controls development in Hong Kong planning system. By fragmenting control over the built environment, each agency

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<sup>4</sup> Before 1978, land cost comprised 40% of the cost of a flat while construction comprised 30% and the developers' gross profit another 30% (Hong Kong Justice & Peace Commission 1979, p.42). But after 1990, the land prices and house prices started to move upwards. Under the estimation of



(i.e., Planning Department, Buildings Department, Hong Kong Housing Authority (HKHA) and the like) becomes a separate realm of political power within the state bureaucracy. This means that Herculean efforts are required to coordinate the different authorities. The ambiguity of such planning system is often perceived as one of the major causes of shortage of land.

In short, the competitive nature of the supply-side market for land and housing in urban areas contributes to their high prices. The policy of suppressing development in 'rural' areas of Hong Kong artificially created a 'scarcity' of urban land and the continued escalating of its price (Wu 1983). The Government's obsession to keep a balanced budget ensures that reproduction of land has to be remained at its point of maximum value in order to increase government revenues. On this basis, strategic planning has never been made statutory. Instead of planning being carried out at a macro-scale, directing development in accordance with legislation, it has devolved to a system of micro-powers throughout the planning system (Cuthbert 1991, p.583). At the same time, the high land price adds to the attractive appearance of investment in the secondary circuit of capital. The more rapid the turnover of real estate is, the faster the prices (both land and house prices) will rise, and the faster the prices rise, the greater will be the incentive for investors to be involved (Gottdiener 1994, p.190). It is the essential ambiguity of those regulations designed to control the construction of the built environment, together with the high level of activity in real estate sector, that have helped in recent years to guarantee super-profits to Hong Kong property companies.

#### *Developers' influence on house prices*

Developers commonly pre-sell the units in a single development in a number of phases, and progressively raise prices over time. This inevitably induces the incentive to buy uncompleted units for speculative purposes and further boost house prices. Also, the 'internal selling' of some prime units to estate agents

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Hsieh (1992), the land cost accounted for about 58% of the selling price of small and medium residential units in urban areas.

instead of public sales compels final users have to pay a considerable price in order to acquire these units from estate agents. Such pricing strategies are often described as 'unscrupulous business practices' that place genuine home buyers in an unfavourable position in the housing market.

This allegation however overlooks the reality of the housing market. Firstly, Evans (1995) alleges that there is **no true market value** of a property, only a range of prices (p.12, emphasis in original). Because of the heterogeneity of properties, because of the infrequency with which any property is sold, because properties differ by location, and because different areas are different markets, there are relatively few participants in any sale with the result that the price is bounded but not determined. As a consequence, other factors determine the price, such as the psychology of buyers and sellers and the behaviour of real estate agents<sup>5</sup>. So, the property market is an inefficient market (p.27).

Secondly, Reichert (1990, p.388) argues that housing consists of essentially local markets influenced by national forces. In analysing the geographic structure of housing market across the United States, he found that various regions responded in similar fashion to certain national factors (such as mortgage interest rates), but that local economic and demographic factors (such as population, employment and income) exerted unique effects in each region. Yet, comparing with the United States housing market, Hong Kong housing market is small and; in fact, it can be regarded as a single local market. Nevertheless, it still contains many small local areas. The home prices of these local areas are largely determined by local market forces, that is, the local supply and demand of housing units.

Thirdly, demography, economic growth and financial liberalisation in the 1980s generated a growth of high-income households who were trading up or looking for high-quality housing as their first owner-occupied dwelling. This kind of housing is usually found in large scale estate development that are mainly

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<sup>5</sup> In fact, real estate agents in Hong Kong do not have a high reputation. Their unethical or sometimes illegal behaviour contributes partly the inefficiency of the property market.



supplied by large developers (refer Table 4.2). In consequence, consumers' preference for these housing estate units<sup>6</sup> put large developers in a slightly more advantageous position as compared to small developers. In general, the prices of these units are often higher than the corresponding district averages (Lai, W-C. L. 1996, p.110), and are labelled as the benchmark of house prices in a local area. In order to ensure the continuity of the large scale housing development, developers try every possible means to guarantee good consumers' response. If the sale of one stage is not good, sales of later phases of the development will be affected. This would have a serious effect on the expected cash flows of developers, and can lead to an increase in the cost of finance in the future as their credit ratings are adversely affected. Furthermore, in order to raise finance from the stock market or from institutional connections, large developers have to present an image of growth and prosperity if investors' confidence is not to be undermined. To maintain dividend repayments and a high turnover of capital implies a greater incentive to sell or pre-sell new units even when the market is sluggish. This is evident from the fact that developers are selling at prices below those of the secondary market in many large developments during the downturn of the property cycle. Sometimes, many developers are offering top-up financing for home purchasers in a bid to sell their own units.

Finally, given the importance of large scale housing estates in the Hong Kong housing market, developers are often perceived to exert monopoly power by 'fixing' prices in this sector of the residential market, leading to the overall price increase. However, Houghton (1993, p.265) regards this power to set price levels in housing market does not depend upon having a monopoly, but can be accomplished by virtue of simply having a 'leading' position, that is, 'smaller or less efficient firms have no practical choice except to follow the prices charged by the industry leaders' (Hewitt & Ostas 1990, p.195). In other contexts, such price

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<sup>6</sup> Three major factors are responsible for the popularity of these large estates. Firstly, the price range is suitable for the mass market. Most of these estates have a solid reputation with banks, making the transaction procedure easier. Secondly, most popular estates are in close proximity to transport, schools and shopping facilities. Thirdly, because of a large number of blocks and units all in the small size range, it gives buyers a near guarantee that they will be able to sell again when the time is right (Bartlett 1990, p.9).

leadership has been an oft-cited feature of 'oligopolistic competition' (White 1981, p.441). Even if property owners can achieve monopoly pricing within districts (see Harvey 1985b, Ch. 4), no developer or small group of developers can control the overall supply in an area. In Hong Kong, new supply is a small proportion of the total stock (2-7%; Lee, D.C. 1997, Fig. 1), and it is unresponsive in the short term to price movements because of production lags. Thus, it is beyond developers' ability to influence the whole market by 'pushing up' the prices of new units. Also, ease of entry into the market and the potential of previously undeveloped districts to compete with developed areas destabilises market domination (Fainstein 1994, p.220). In any case, even in a concentrated provision of owner-occupied housing, large developers do compete among themselves in terms of pricing, particularly during a downturn in the market. The property development industry indeed has a paradoxical situation with regard to market position — it is simultaneously monopolistic and highly competitive. The following analysis of sales strategies adopted by developers in Tseung Kwan O throws some lights on this.

#### *Developers' pricing strategies in Tseung Kwan O*

Tseung Kwan O, known as Junk Bay before June 1989, is chosen as a case study because its secondary market is not yet as big as in other mass residential areas since its development is fairly new. It is easily accessible to the author, and consequently its choice as a case study area has many practical advantages in finding contacts and sources of data. Also, extensive coverage of its development and the sales of private housing units have been constantly reported in the mass media. The reports provide a useful supplementary information in this study. The period June 1996 to April 1998 offers the opportunity to examine different aspects of developers' selling strategies at different points in time. The mid-1996 showed a peak of housing prices and then a distinct trough in October 1997. This price movement allows us to look at closely the behaviours of private developers in response to the changes in the property market.



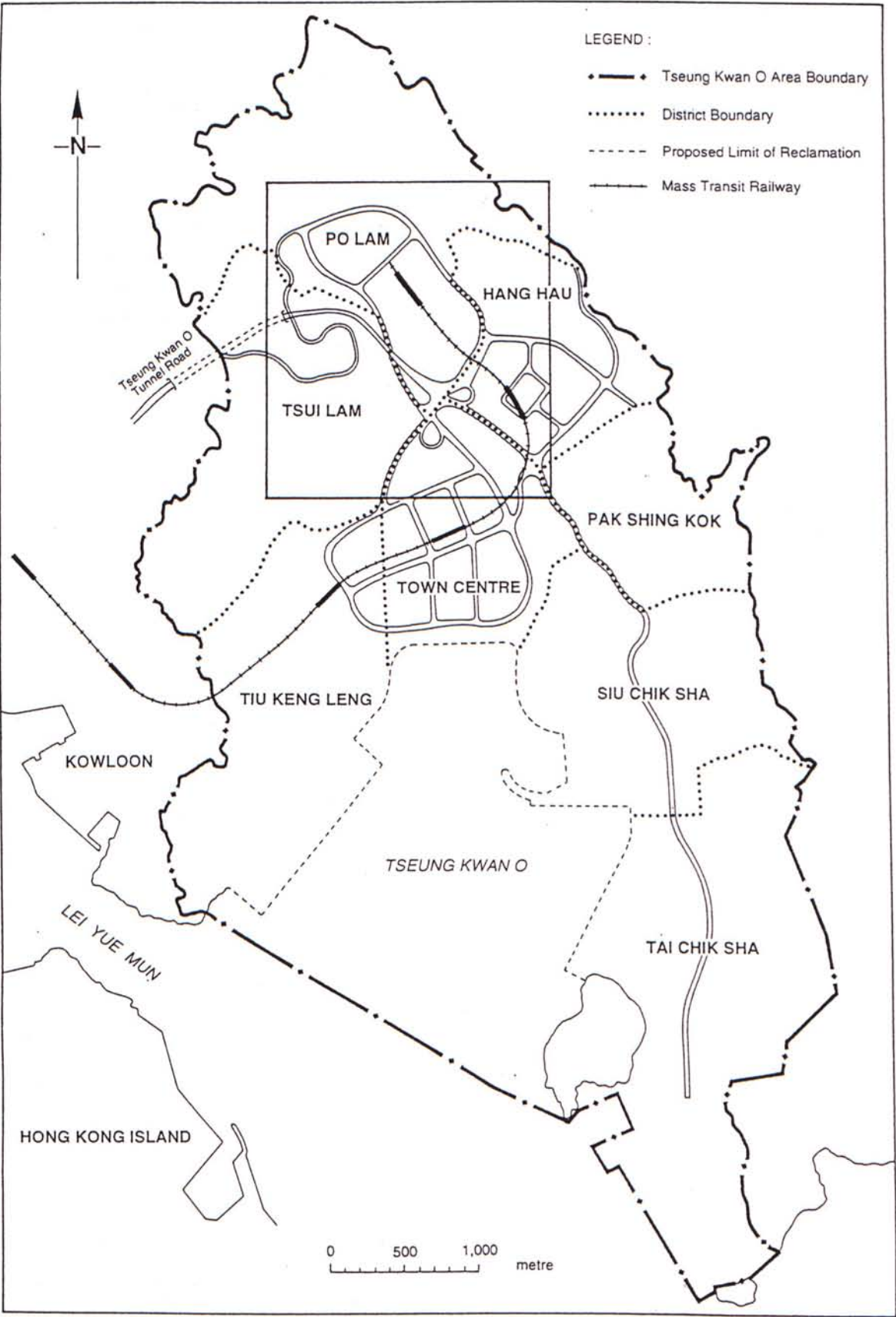
The development of Tseung Kwan O as a new town<sup>7</sup> began in 1983. Covering a site area of 1,715 hectares, the new town development is divided into three phases. The Phase I area has been substantially completed. Phase II development generally refers to the town centre area. The removal of the steel works and the development of the third industrial estate and chemical storage terminal in Tseung Kwan O, and the clearance of Tiu Keng Leng (previously called Rennie's Mill) for public housing development are considered as the Phase III expansion of Tseung Kwan O new town (Fig. 6.3).

Unlike other new towns such as Fanling and Sheung Shui, which are granted a developable ratio of only five times, most of the areas in Tseung Kwan O are allowed to build high-rise residential properties with a plot ratio of up to eight times with open space on the basis of 10.764 square feet per person (*SCMP*, 12 November 1997). The new town is targeted to accommodate a population of 520,000 when it is scheduled to be completed in 2011.

Population of the Tseung Kwan O new town was about 143,000 in the 1996 census (Census & Statistics Department 1996, Table F8). Like all Hong Kong new towns, the development of Tseung Kwan O is 'public housing led', (Pun 1987, p.42), that is, new towns exist, grow, and have their design determined primarily to meet the long-term production targets of the HKHA. Currently, over 80 per cent of living quarters are provided by the HKHA (Table 6.2). The first two public rental estates — Tsui Lam and Po Lam — were completed in 1988/89, and the first subsidised owner-occupied housing estates were King Ming and Ying Ming Home Ownership Scheme (HOS) courts and Hong Sing Garden, a project under the Private Housing Participation Scheme (PSPS) in 1989-90 (see Table 6.3). The first batches of private housing developments were Nan Fung's Well On Garden and

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<sup>7</sup> The development of new towns in Hong Kong concerns the development of major new cities (in the population range of 1,000 to 800,000) on virtually virgin undeveloped sites (Bristow 1989, p.2). There have been 5 successive major cycles of new town development in Hong Kong. The first was Kwun Tong that was commenced in the late 1950s. The second was Tsuen Wan, Sha Tin and Tuen Mun (known as Castle Peak before 1973) in the 1960s. The third was the expansion of major rural townships in Tai Po, Yuen Long and Fanling/Sheung Shui in the mid-1970s. The fourth was Junk Bay (now Tseung Kwan O) and Tin Shui Wai and the expansion of Sha Tin at Ma On Sha in the



**Figure 6.3** Tseung Kwan O: division of districts.  
*Source:* Territory Development Department (1997) Fig. 2.

1980s. Finally, the 1990s saw the initiation of new development in Tung Chung/Tai Ho in North Lantau.



**Table 6.2** Tseung Kwan O: number of dwelling units by type of living quarters, 1991 and 1996.

Type of living quarters	1991	1996
Housing Authority rental housing	11,099	18,862
Housing Society rental housing	-	-
Housing Authority HOS estates	8,652	14,779
Private housing	-	1,778
Villas/Bungalows/Modern village houses	490	1,030
Simple stone structures/Traditional village houses	130	95
Institutions (include hospitals, prisons, old people homes, religious houses and British force barracks)	42	-
Other permanent housing	115	
Staff quarters		392
Non-domestic quarters		70
Other temporary housing	1,878	
Public temporary quarters		1,273
Private temporary quarters		16
<b>TOTAL</b>	<b>22,406</b>	<b>38,295</b>

Sources: Census and Statistics Department (1991, 1996) Table F1.

Henderson's Finery Park, which began occupation in 1994. Then, the first Hong Kong Housing Society's (HKHS) subsidised owner-occupied housing estate, Verbena Height, was introduced to eligible purchasers at a discount in late 1996<sup>8</sup> (see Table 6.4). All these public and private housing estates are mainly located in areas of Phase I development scheme (Fig. 6.4).

At present, only six private housing developments have been carried out by different developers in Tseung Kwan O (Table 6.5). These housing estates are located adjacent to each other; therefore, units from individual development can be

<sup>8</sup> However, when buyers started moving into their flats of Verbena Height in September 1997, about 1,500 households were informed by the HKHS that they had paid the wrong price (including 922 buyers reported that they had been over-charged by up to \$100,000) as architects had failed to take into account the changing width of an external wall when measuring the size of flats. To pacify the protest from flat owners, the society offered to buy back the properties at the original price and repay the legal fees, stamp duty charges and expenditure on decoration expenses, etc. As a result, about 160 buyers decided to rescind the purchase agreements by selling them back to the HKHS at the original price. About 110 families chose to rent the flats. The rest accepted the compensation, which totalled more than \$30 million, and went ahead with the purchase (SCMP, 17 December 1997; *Express News*, 31 December 1997).

**Table 6.3** Tseung Kwan O: existing housing estates provided by HKHA as at 31 March 1998.

<b>1. Public housing estates</b>					
<b>Name of estate</b>	<b>Year of completion</b>	<b>No. of blocks</b>	<b>No. of flats</b>	<b>Accommodated population</b>	
Po Lam	1989	6	5,007	19,948	
Tsui Lam	1989	8	4,932	20,307	
King Lam	1992	7	5,510	19,404	
Hau Tak	1994	6	4,268	14,098	
Ming Tak	1996	2	1,561	4,343	
<i>Sub-total</i>		<i>29</i>	<i>21,278</i>	<i>78,100</i>	
<b>2. HOS courts</b>					
<b>Name of estate</b>	<b>Year of completion</b>	<b>No. of blocks</b>	<b>No. of flats</b>	<b>Accommodated population</b>	<b>Selling prices (\$)*</b>
King Ming	1989	3	1,050	3,900	178,100-381,000
Ying Ming	1990	5	1,750	6,500	213,300-433,300
Yan Ming	1991	5	1,750	6,500	235,900-481,500
Ho Ming	1991	1	816	3,000	195,200-340,700
Chung Ming	1994	5	1,750	5,800	415,300-934,100
Yu Ming	1994	2	1,216	4,000	676,800-1,168,700
Yuk Ming	1994	3	1,824	6,000	754,300-1,404,900
Hin Ming	1996	1	759	2,600	293,800-1,150,100
<i>Sub-total</i>		<i>25</i>	<i>10,915</i>	<i>38,300</i>	
<b>3. PSPS estates</b>					
<b>Name of estate</b>	<b>Year of completion</b>	<b>No. of blocks</b>	<b>No. of flats</b>	<b>Accommodated population</b>	<b>Selling prices (\$)*</b>
Hong Sing Garden	1989	5	1,851	6,800	235,800-394,500
Fu Ning Garden	1991	6	2,449	8,600	269,200-439,700
On Ning Garden	1991	6	2,302	8,200	312,200-528,100
<i>Sub-total</i>		<i>17</i>	<i>6,602</i>	<i>23,600</i>	
<b>TOTAL</b>		<b>71</b>	<b>38,795</b>	<b>140,000</b>	

\* selling prices were 45-50% of the market prices.

Source: HKHA.

**Table 6.4** Tseung Kwan O: existing owner-occupied housing provided by HKHS as at 31 March 1998.

<b>Name of estate</b>	<b>Year of completion</b>	<b>No. of blocks</b>	<b>No. of flats</b>	<b>Accommodated population</b>	<b>Selling price (\$/ sq. ft.)</b>
<b>1. FFSS estates</b>					
Verbena Height	10/97	6	1,894	6,629	2,119
<b>2. SCHS estates</b>					
The Pinnacle <sup>(1)</sup>	8/98	4	1,424	4,984	3,513
Serenity Place <sup>(2)</sup>	11/98	5	1,526	5,341	n.a.
Radiant Towers <sup>(1)</sup>	12/98	2	704	2,464	2,732
<b>Total</b>		<b>17</b>	<b>9,300</b>	<b>32,550</b>	

Notes: (1) Radiant Towers and The Pinnacle were sold at about from 33.36% to 38.42% on full market values.

(2) The selling price of Serenity Place has not finalised yet.

Source: HKHS.





**Table 6.5** Tseung Kwan O: private housing developments as at 31 March 1998.

Name of estate	Developer	Year of completion	No. of blocks	No. of flats	Means of land acquisition
Well On Garden	Nan Fung	9/1994	4	1,280	through LEEs in 1991.
Finery Park	Henderson	10/1994	2	688	through LEEs in 1991.
Metro City (Phase I)	Henderson	4/1997	6	2,048	through LEEs in 1992.
East Point City	Sun Hung Kai	11/1997	7	2,184 (including 28 penthouses)	through LEEs in 1992.
Maritime Bay	Sino	2/1999	2	736	via public auction in March 1995.
La Cite Noble	Henderson	5/1999	6	2,184	n.a.
<b>TOTAL</b>			<b>27</b>	<b>9,120</b>	

regarded as close surrogates to each other. Residential units from each development have been put into the market at different points in time since 1993.

Well On Garden, the first private housing estate was launched for public sale on 10 March 1993 at an average purchase price of \$2,950 per square foot. Later, Finery Park was also sold to public at an average price of \$3,000 per square foot. The selling prices of these two estates were close to those (\$3,000-\$3,200 per sq ft) at the suburban areas like Sha Tin, Tai Po and Tsing Yi. Yet, the prices were set slightly below the overall market prices since these developments were small in scale.

Public attention was drawn to Tseung Kwan O when units in Metro City (Phase I)<sup>9</sup> were sold. Over 2,000 units were introduced into the housing market at various stages between June 1996 to June 1997 (Table 6.6). In the first batch of sales, Henderson faced competition with its own development, Sunshine City in Ma On Shan. In order to arouse public interest, the selling prices of the first 68 units were set an average of \$4,376 per square foot, a 8 per cent below those at Sunshine City (\$4,738-\$5,355 on 2/6/1997). Such prices attracted overwhelming responses, and subsequently, the flat prices rose from \$5,000 per square foot in June-July 1996 to a high of over \$7,500 per square foot by March 1997.

<sup>9</sup> Metro City consists of 3 phases. Phase II will provide 3,400 housing units and be sold in mid-1998. The phase III is planned to provide 1,400 units at the end of 1998.



**Table 6.6** Price movements of Metro City (Phase I), Tseung Kwan O.

Sale date	No. of units	Price (\$/sq. ft.)	Results of the sales/Remarks
23/6/1996	68	4,376	4,137 applications including 514 company subscribers. Overall 95% sold on that day.
	172	4,677	
	176	4,685	
	104	5,037	
	208	5,095	
	72	5,133	
7/7/1996	68	4,725	1,801 applications including 360 company subscribers. Overall 98% sold on that day.
	100	4,836	
	100	5,025	
	12	not disclosed	
14/7/1996	34	5,239	Units re-sale with price adjustment.
18/8/1996	48	5,041	Overall 99% sold on that day.
	28	5,062	
1/9/1996	52	4,724	Overall 99% sold on that day.
	28	4,942	
	2	not disclosed	
15/9/1996	40	4,865	83% sold on that day.
13/10/1996	32	5,211	63% sold on that day.
10/11/1996	28	5,200	57% sold on that day.
29/1/1997	72	5,500	Overall 98% sold on that day.
	20	not disclosed	
7/2/1997	80	7,092	Re-sale with discount during 7-16/2/1997.
6/3/1997	80	7,092	Units on higher floors.
	16	7,587	
	224	7,345	
⋮	⋮	⋮	⋮
28/6/1997	30	7,485	Re-sale with discount during 28/6-7/7/97.

Sources: *Hong Kong Property Journal*, various issues.

Yet, the most eye-catching sales occurred in January 1997 when units of the East Point City were put into the market. Sun Hung Kai first released 304 units in the first batch priced at \$5,158 per square foot that was below the secondary market price. At that time, the selling prices of Metro City were around \$5,200 per square foot. Despite the introduction of new anti-speculative measures in January 1997, the relatively lower price, undoubtedly, attracted a record high subscription of 27,132 applications (including 5,510 company subscribers) for 304 units. Encouraged by such an overwhelming response, the developer released additional flats in batches at increasing prices on the same day, making a total of 1,864 units. The prices of added units reached \$5,596 per square foot (Table 6.7) that were

**Table 6.7** Price movements of East Point City, Tseung Kwan O.

Sale date	No. of units	Price (\$/sq. ft.)	Results of the sales
11/1/1997	304	5,158	27,132 applications including 5,510 company subscribers. Overall 90% sold on that day.
	152	5,313	
	152	5,472	
	888	5,636	
	368	5,596	
9/4/1997	100	6,790	Overall 24% sold on that day.
	115	7,082	

Sources: *Hong Kong Property Journal*, various issues.

ultimately higher than those of Metro City. Nevertheless, about 90 per cent were sold on that day. Later, Sun Hung Kai released another 100 flats at \$6,790 per square foot on cash payment in April 1997. The cost per square foot was 32 per cent higher than the first batch of units sold in January. It then released an extra 115 units at \$7,082 per square foot. However, only 52 of 215 units were sold. Indeed, the East Point City became the first major new project suffered the downturn of the market, which was caused by the raise in interest rate in March 1997.

Facing the intense competition from Sun Hung Kai and the changed market sentiment, Henderson began to cut its remaining Metro City units to \$7,000 per square foot in April 1997. Later, the prices rose again when Hong Kong housing market experienced a short boom before the handover in July 1997. However, after the Asian financial crisis, as part of a Lunar New Year promotion, the developer cut almost 20 per cent off the listed price in January 1998. It also offered a 90 per cent loan fixed at 10 per cent for two years. Furthermore, it waived the legal fees, and paid the 2.75 per cent stamp duty charges (*SCMP*, 30 January 1998).

On the other hand, Sun Hung Kai released 28 penthouses at its East Point City in December 1997 at price of \$7,500-\$8,000 per square foot. At first, the developer did not cut prices to compete for buyers, and set prices that were higher than those in the secondary market. Instead, it provided preferential mortgage terms to buyers, like paying the balance of interest charges if prime lending rates



rose to 10 per cent or above. Also, Sun Hung Kai launched full-page advertisements in seven Chinese newspapers on 21 November 1997 that stated a happy family life in one of its flats was more important than the fact that it might depreciate in price. Yet, the tactical advertisement campaign failed to push the market upwards. Sun Hung Kai, ultimately, has succumbed to market forces by offering the units at sharply lower prices (\$6,865 per sq ft; *Express News*, 1 January 1998). However, selling at below secondary market prices does not by itself guarantee that all units could be sold in a short period of time, as is evident in the latest sales results of East Point City.

The pricing strategy of a developer is also affected by the way the land is acquired and its own company's structure. In the time of December 1997, along the sales of penthouses of East Point City, Sino pre-sold uncompleted units of Maritime Bay in Tseung Kwan O. Maritime Bay is a two-tower development, with 736 units ranging from 588 to 892 square feet in size. The first 148 units were offered for sale on 1 December 1997 at an average \$5,727 per square foot — about 12 per cent lower than the prices of similar units sold in Tseung Kwan O's secondary market. Actually, the secondary market in Tseung Kwan O was very small, mainly comprised units of Metro City that began occupation in April 1997. The average price of Metro City was \$6,500 per square foot while those of Finery Park and Well On Garden were \$5,200-\$5,300 per square foot. Also, Sino is always the most aggressive developer in terms of its way to acquire land in public auction. Therefore, it is very eager to speed up sales and generate cash flow, despite weak market sentiments.

Furthermore, the year 1998 will witness a move toward domination of Tseung Kwan O's new-construction housing market by a big developer, Henderson. It is anticipated that Henderson will sell over 13,000 units, a 35 per cent of total residential supply this year (*Express News*, 8 December 1997). Among them, nearly half of them are located at Tseung Kwan O. They include 4,752 units at Metro City Phases II and III and 2,160 units at La Cite Noble. Such large supply in the area and the combination of the economic hard times upset the

entire price structure in Tseung Kwan O. With prices sliding, interest rates prospects uncertain and buyers hesitate, Henderson, with its substantial land bank at Tseung Kwan O, has no choice but continues to boost sales by discounting prices. As a result, nearly 70 per cent of the initial batch of units on sale at La Cite Noble were sold below \$3 million in April 1998. The first batch of 218 units was released at \$4,028 per square foot (see Tables 6.6 and 6.7 for comparison), more than 10 per cent below secondary market prices. Actually, the effective price of La Cite Noble was lower than the listed price since Henderson offered mortgage interest subsidies, decoration cash coupons and legal fees payment. Clearly, the large backlog of new flats in Tseung Kwan O puts pressure on developers' pricing strategy.

Thus, the above case study shows that developers do compete strongly against each other in selling their products. Sometimes, they arrange shuttle bus services to their own sale offices in front of their rival's in order to secure more customers. Developers do consider price movements both in the local area and also others where similar units being sold. So, developers do not have sufficient market power to control price and extract monopolistic advantage. Finally, even in a local area, there exists different sub-markets. No one can deny that a local market, particularly in a large metropolitan area, does not operate as 'one large market', but rather as a series of linked sub-markets. To sell a particular housing type, developers have to adjust their selling strategy to attract a particular cluster of households who look for better and more spacious housing units. This is evident in how Sun Hung Kai sold its East Point City's penthouses. Ultimately, it is the market, that is the interaction of demand and supply at a local area, which determines the house prices.

#### *Collusion of developers in the housing market*

On the other hand, the existing nature of owner-occupied housing provision, that is a high concentration of housing supply within a small group of large property firms, enforces property entrepreneurs' capacity on the general public. Put another



way, the current housing market structure enables entrepreneurs to attain their goal and profit. One possible outcome is that developers have collusive power in the housing market. This can be assessed in the land auction in June 1994, which was immediately following the Government's package to curb speculation in the property market. During that auction, Hong Kong's top 12 property developers jointly bid for the land. The two plots near the Chinese border sold for \$2.6 billion (US \$338 million), approximately 40 per cent below the market prices at that time. The developers organised effort caused an uproar in the community, and the Government, shocked by the outcome, immediately reviewed the bidding arrangements. The developers, on the other hand, claimed that the offer of low bids was a self-defence in an uncertain market. But, economic critics said the developers' real intention was 'to teach the government a lesson' (do Rosario 1994, p.62). The anti-speculative measures, which aimed at bringing property prices down, would deduce the developers' profit. But, the drop of property prices would diminish the Government's main source of revenue, that is from land sales and property-related taxes. Thus, it was thought that the developers' cartel-like move to keep auction prices low was intended as a reminder of the above fact.

Whatever the real motive for the below-expectation bid, there has been not enough evidence of collusion (*ibid.*). In fact, it is very common for developers to form joint venture, especially when the parcel of land being auctioned is large or the market is at a slump. Also, joint venture among smaller developers allows them to bid for large plots of land and thus promote competition in the land market. Besides, joint venture in housing development is inevitable since this is the means by which developers can diversify their risks, reduce development income fluctuation over time and achieve scale economies. The latter is manifested in the popularity of large scale housing estate development.

Although the accusation of collusion among developers cannot be empirically proved, the Consumer Council claims that developers can co-operate with each other by having common directorship. Table 6.8 shows a number of leading figures in prominent property development companies who serve as

**Table 6.8** Cross-directorships among Hong Kong major developers in 1995.

	<b>Company</b>	<b>Position</b>
Ho Tim	New World Development Co., Ltd.	Director
	Sun Hung Kai Properties Ltd.	Director
Lee Shau-kee	Henderson Land Development Co., Ltd.	Chairman & Manager Director
	Sun Hung Kai Properties Ltd.	Vice-Chairman
Lee Yeh-kwong, Charles	Cheung Kong (Holdings) Ltd.	Director
	Henderson Land Development Co., Ltd.	Director
	Hopewell (Holdings) Ltd.	Director
	Sun Hung Kai Properties Ltd.	Director
Li Tzar-kuoi, Victor	Cheung Kong (Holdings) Ltd.	Deputy Chairman & Deputy Managing Director
	Hopewell (Holdings) Ltd.	Director
Woo Po-shing	Henderson Land Development Co., Ltd.	Director
	Sun Hung Kai Properties Ltd.	Director

*Source: SCMP, 12 May 1996.*

directors of other firms. In this context, the Council points out that, ‘there is a significant risk of abuse of market power and anti-competitive practices’ (*SCMP*, 12 May 1996).

However, a browse among annual reports of large property development companies can dismiss the claim that such cross-directorship will make collusion between developers easier. First, it is common practice for an expanding firm to invite prominent figures to join the company to improve its prestige and standing in the sector. Second, the person invited into the Board usually accounts for a very small company’s share, which means he/she does not have enough power to veto the major shareholder(s)’ decision. Rather than using co-directorship to facilitate collusion, it actually serves as a basis in forming a business network.

Yeung (1997, p.5) defines a business network as ‘an integrated and coordinated set of ongoing economic and non-economic relations embedded within, among and outside business firms’. The embeddedness is realised in ongoing networks of relationships at three distinct levels (p.20):

- (a) extra-firm relations with ‘influential individuals’ within the state bureaucracy through political connections;



- (b) inter-firm relations with business partners through intricate shareholding arrangements and with personal friends through joint ventures; and
- (c) intra-firm control and co-ordination through the process of 'family-isation', that is, socialisation of key personnel into the 'corporate family'.

In such context, a network is more than just an integrated structure because it is simultaneously a structure and a process. It is a nested structure with emergent power in an abstract sense (p.5).

The business network formation, however, does not change the traditional characteristics of a Chinese business organisation. Redding (1991, p.36) distinguishes Chinese entrepreneurs' style of management as follows:

- (a) Control of the firm should be retained in the interests of long-term family prosperity;
- (b) Risks should be hedged to protect family assets;
- (c) Key decisions should remain within an inner circle; and
- (d) Dependence on non-belongers for such essentials as managerial, technical or marketing skills should be carefully limited.

Because of this obsession to maintain control, the power of decision making is extremely centralised. Usually the owner, entrepreneur, founder or father/mother figure becomes the key decision maker. Even when the Chinese firm grows larger, and has to adopt more 'rational' methods of management in order to remain competitive, Tsoi's (1993, p.21) in-depth analysis of the internal dynamics and organisational structure of a Chinese property development company in Hong Kong finds that relatively important decisions on personnel and financial matters still remain at the top. Thus, Chinese developers have their own business policies in pursuit of self-interest and profit maximisation. So, conflicts often arise making collusion among developers impossible. Even collusion did happen, the bond would certainly be fragile, and could not last permanently.

To conclude, any economic action designed to increase market share, boost prices or exert some control over the economic environment is often perceived by an outside observer as 'monopolistic' behaviour. But, unless it can be shown that there is a conscious strategy to create a monopoly or an oligopoly, it can never be more than an attribution (Houghton 1993, p.271). Even the housing market is today full of very powerful developers providing and selling a vast number of residential units, but few of these enjoy a pure monopoly position in the market, and none of them can legitimately force customers to pay them money against their will. Indeed, from the viewpoint of large private development companies, concentrating capital resources to create a monopoly in a certain segment of real estate would probably be viewed as a recipe for disaster, given the disjointedly cyclic and frequently volatile nature of markets in real estate. Furthermore, the investment necessary to create such a condition would be enormous, even impossible in most cases.

In current practice, large real estate developers 'hedge their bets' through purposefully followed programmes of diversification, not only in types of real estate (e.g., multi-use projects include hotels, shopping malls, and recreational facilities, etc.) but in locations as well (e.g., China, Canada, United Kingdom and so on). Some even diversify their businesses to unrelated sectors, like retail industry, communication services, public utilities services, etc. This dispersal of capital and development activity not only tends to mitigate against the realisation of monopolies, but also casts doubt upon connections that monopoly power is a systematically sought goal of large and sophisticated property developers. Nevertheless, it does not rule out that varying degrees of co-operation takes place among developers, but the rationale behind these acts of co-operation is more than in gaining monopolistic advantages rather, it is the non-monetary returns they actively seek for. Increasingly, Hong Kong large developers are more than a group of housing producers, they occupy prominent positions in Hong Kong's, or even China's, political sphere.



### **Developers' political power**

The foregoing account examined developers' power in an economic content, and it demonstrated the difficulty of finding empirical evidence. However, from a broader viewpoint, developers do possess power in Hong Kong's economy. Thus, in order to examine this issue closely, a more stringent definition of power is required.

First, Polsby (1963, p.3-4) defines 'power',  
as the capacity of one actor to do something affecting another actor,  
which changes the probable pattern of specified future events. This  
can be envisaged most easily in a decision-making situation.

There are two aspects in this definition. The first and substantive part is that power implies an element of control over others as well as over future events. The second aspect is concerned with the empirical manifestation of power, and Polsby proposes that power is most easily indicated in decision-making. The people who make decisions, particularly at a social-political level, and determine the direction of future events, thus have power. Putting these two aspects together, the important part of Polsby's definition of power is that it is the ability to influence others, thereby changing the pattern of future events. This ability is at the heart of the conception of power. If an actor can influence the decision-makers, he/she can have the pattern of future events changed to suit him/her. It is he/she, rather than the decision-makers, who wields power.

In this regard, Anderson and Gibson's conception of power is also helpful. They (1978, p.45) describe,

Power inheres in the social relations which regulate or control the flow of material and human resources in a society. Thus, power may be measured by the degree to which a person or group controls the application and distribution of a society's resources.

Resource control confers power in that the actions of the controller significantly affect the livelihood of others — their employment, careers, incomes, use of public utilities and so on — and to an important extent shape their values and beliefs. The way in which a society's major resources are applied or re-distributed therefore has a profound influence on the development of future events. In a free market economy, such as Hong Kong, many of society's major resources are controlled by individuals and corporations in the private sector, who thereby have a hegemonic position in society.

Leung, B.K.P. (1990, p.20) explains why such hegemony has a powerful influence on the decision-makers in both the then Hong Kong government and the new HKSAR government. As a substantial portion of government revenues comes from the economic undertakings of these individuals and corporations, their application or withdrawal of resources will significantly affect the stability and well-being of the economy. Thus, no sensible decision-maker in the Government would venture to neglect their views and interests in policy-making.

From the outset, the private sector's dominance of the economy was established. In a review of the political structure in Hong Kong, Rear (1971, p.78-79) demonstrated that power was exercised in the Colony through a tacit alliance between business interest and the bureaucracy. Davies in his study of the overlapping membership between political bodies, boards of directors and government advisory boards in 1976 came to a similar conclusion.

In general, it can be concluded that there is in Hong Kong a relatively small elite that controls the policy process. It is in the main non-Chinese and with a large proportion of expatriates. (1977, p.69)

The business interests referred above were mainly the trading houses (hongs) started by British entrepreneurs in the late nineteenth and early twentieth century. Traditionally, the chief executives of the four major hongs (Jardine and Matheson, Swire, Hutchison and Wheelock Marden) would be represented on the board of the Hong Kong and Shanghai Banking Corporation (HSBC). These



‘taipans’ would also be the Unofficial Members of the Executive Council, the major policy-making body in the colony. They would also be members of the then Royal Hong Kong Jockey Club (now known as the Hong Kong Jockey Club), whose chief administrator would also be represented on the board of HKSBC. The Chairman of HKSBC in turn would always be the chief steward of the Jockey Club. This network was so tight; indeed, the power of the elite group of businessmen was so great that it had been said that, ‘power in Hong Kong resides in the Jockey Club, Jardine and Matheson, the Hong Kong and Shanghai Bank, and the Governor — in that order’. (Hughes 1976, p.23).

However, this business network was loosened in the early part of the 1970s when the property development industry became flourishing. The property boom gave rise a group of Chinese business groups. Wong, G. (1996, p.104-105) identifies four reasons why the hongks were not able to profit from the property boom as much as the Chinese businesses.

The first reason could be that because of the speculative nature of the property market, the conservative hongks wanted to avoid the risk. Indeed, many Chinese businesses had gone bankrupt because of the property market. The Goodyear Property Development Co. (the Southeast Asian Chinese property company constructed the first high density building project mentioned in Chapter 4) was a good example of how a very successful company went bankrupt in a very short period of time.

Secondly, the property developments in late 1970s and the 1980s were mainly high density building developments in the New Territories. The senior executives of the hongks, mainly expatriates, tended to live and work in different areas in Hong Kong that were more luxurious and less crowded. Hence, they did not have the intimate knowledge of these areas that made it difficult for them to undertake very large financial commitments to these development projects.

Thirdly, it could be that they lacked faith in the future of Hong Kong. Being British, they had the option of moving out more easily than their Chinese counterparts. Investing in landed property would neutralise this advantage because of further committing their investment to remain in the colony. Finally, property ownership has always been a means to build up family prestige and wealth in traditional Chinese villages. Chinese businessmen therefore value property foremost as a form of investment, and they readily accept a speculative nature of industry as a *sine qua non* of business.

Later, the effect of the Sino-British negotiation in 1982-84 precipitated the fall of British hongs, but provided an opportunity for the Chinese business groups to consolidate their footings not only in the property field, but also in the economy as well. However, when compared with their British counterparts, most of the Chinese entrepreneurs did not actively involve themselves in any political group. They were not offered seats in the Executive or Legislative Councils, non in any government advisory boards. Yet, by virtue of their prominence in the business circle, the Chinese property tycoons have always been able to maintain a certain degree of influences over the decision-makings of various government departments. The negotiation of planning matters, land premiums, discretionary rulings, etc. are always more favourable to the large companies, not only because they have stronger bargaining powers, professional expertise, financial back-ups, but also in most cases, because of their political influences. The development of Tin Shui Wai is one classic example.

#### *Controversy over the development of Tin Shui Wai*

The initial idea for the development scheme had originated from an investment consortium that had bought speculatively a large parcel of 488 hectares of fish ponds to the west of Yuen Long. The early intention was to develop low-density private housing, but the scheme was changed when the interests were brought out by a new consortium formed as Mightycity Ltd. — made up of 51 per cent China Resources Holdings (the biggest Mainland China's trading and investment



company in Hong Kong at that time), Cheung Kong, Trafalgar Housing and Wheelock Marden.

The consortium submitted a master plan for the now 846-hectare site to the then Hong Kong government in November 1980. It proposed a development scheme to provide 60,000 public housing units, 43,700 HOS units and 43,000 private units, with a 15-year development period to a target population of 535,000 — a proposal equivalent to one of the Government's own new towns. As the consortium represented a major grouping of some of the largest Hong Kong's Chinese property companies at that time, and with the high-profile Mainland Chinese backing, it represented an important developer that the colonial government could hardly ignore. Moreover, the dominant Chinese interest set the Government a political dilemma that proved particularly sensitive, especially once the build-up to the 1984 Sino-British Agreement on the future of Hong Kong after 1997 had begun in the early 1980s.

In general terms, the proposal met all criteria and constraints in urban design and planning set by the Government's own planning standards and guidelines, but, at the sub-regional level, it posed an immense problem to the Government. Experience with the earlier and smaller private sector residential developments at Fairview Park and Hong Lok Yuen suggested that the Government would be faced with large infrastructure expenditures resulting from the new scheme, particularly if major commuting patterns were to develop. Certainly the Government could not change its priority-setting of the annual public works programme to fit the rigid time scale of a private-sector scheme over other projects that had a higher social or economic priority (Bristow 1989, p.217). In this context, the Government had a strong rationale not to accept the proposal on both planning and financial grounds, yet politically it felt unable to issue an immediate and outright rejection. The preferred solution was the prolonged negotiations between the Government and the developer to find alternatives<sup>10</sup> for the scheme.

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<sup>10</sup> There were 4 alternatives proposed by the Government. The first one was an exchange of land close to the north of Lantau Island where the Chek Lap Kok International Airport located, and Tin Shui Wai site would be taken by the Government as a longer-term development bank. The second

Eventually, the property slump of 1982 pressurised the consortium to beat a retreat. As the Government knew that serious negotiations with China on the future of Hong Kong were about to get under way, any collapse of the Tin Shui Wai scheme, given the Chinese involvement in it, would be highly and seriously embarrassing. The result was a decision by the Government to buy the developer's land-holding at a total price of some \$2.26 billion and to co-develop the southern part of Tin Shui Wai site (*SCMP*, 30 July 1982). That site covered 170 hectares, part of it (39 hectares) was granted to the developer for the Kingswood Villas project, while the remaining part was for public housing and community uses.

The final agreement was controversial. Firstly, for the purchase price not only marked the highest amount the Government had ever paid for a piece of land, but also it was the first time it had agreed to pay property that was not earmarked for a specific and immediate project. Secondly, Mightycity gained a \$800 million deduction of land premium from the purchase price in addition to the 39 hectares site granted back to it for private housing and commercial development (Bristow 1989, p.220).

The Tin Shui Wai example does not permit the conclusive claim that the Government is run in the interests of the big developers who therefore are the real power-wielders given that the event occurred in the sensitive period of 1982. But, the influence of developers and the demonstrated relationship between developers and the Government lead to the belief that there is a solid ground for maintaining that government policy-making is significantly subject to the constraint of big business. Also, the Tin Shui Wai example illustrates how Hong Kong Chinese developers use Mainland China's influence in shaping the Hong Kong government policy-making. Unlike British counterparts, local Chinese property tycoons are keen to cultivate their relationships with officials working in Mainland China rather than officials in Hong Kong government.

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one was to defer the relocation of Hong Kong International Airport to Chek Lap Kok and allow Tin Shui Wai to proceed its development. The third was to transfer the new airport site to Deep Bay, adjacent to Tin Shui Wai site. The last alternative was to turn down the scheme and buy out the developer (Bristow 1989, p.218-219).



*Hong Kong property developers and Mainland China*

Since the China's economic reforms and open-door policy in 1978, the investment flow between Hong Kong and China has expanded dramatically. Hong Kong is the largest single source of direct investment in China (Smart & Smart 1991, p.216). From the early 1980s, Hong Kong industrialists moved low-cost assembly operations of manufacturing activities across the border to Guangdong and other southern parts of China. The result is that Hong Kong is the shop front and Guangdong is the backyard factory of Hong Kong manufacturers. Between 1978 to 1996, Hong Kong-based investors poured \$48 billion into 70,000 projects in Guangdong. Besides accounting for the largest share of foreign investment in the province (72%), this flow has also accounted for a substantial proportion (24%) of total foreign investment in China (Gilley 1997b).

At the same time, the level of investment from China in Hong Kong has been rising, particularly since 1992. Indeed, recent investment by Chinese enterprises in Hong Kong has been spectacular. In addition to the four major enterprises which had already set up offices in Hong Kong before China's economic reforms (namely, the Bank of China Group, the China Resources Group, the China Merchants Group and the China Travel Holdings), various other enterprises in China, including government-affiliated enterprises, enterprises affiliated with the People's Liberation Army and even rural enterprises in the Pearl River Delta area of Guangdong province, have now opened offices in Hong Kong. The fields of their investment are widespread, but tend to concentrate in trade, finance, tourism, transportation, warehousing, communications and real estates. In property development industry, China Overseas Land and Investment Ltd. and CITIC Pacific Ltd. (mentioned in Chapter 4) are particularly active, and increasingly become major players along with Hong Kong large property developers.

In recent years, the rising property market in China has attracted much attention from Hong Kong developers. Statistics from Guangdong reported that in the first three months of 1992, 58 per cent of the foreign investment contracts

valued at more than US \$5 million were real estate projects (Li & Lo 1993, p.114). In 1992, Hong Kong's largest 15 publicly owned companies have invested \$10 billion in real estate projects in China. These included residential and commercial buildings and industrial warehouses.

Unlike those manufacturers who set up small-scale export-processing ventures in small towns or in villages, Hong Kong developers invest large-scale property and infrastructure projects in major cities such as Beijing, Guangzhou and Shanghai. While the manufacturers use kinship and friendship ties to develop interpersonal relations (*guanxi*) with local officials to circumvent bureaucratic inefficiencies and problems of material shortages (Smart & Smart 1991, p.226), property developers adopt another strategy to directly build relationship with central authorities. To understand the strategies employed by Hong Kong developers in building this extra-firm business network, Cheung Kong will be examined in details. In many ways, K.S. Li, the founder of Cheung Kong, is well known for his relationship with China and his role in Hong Kong's business and politics.

Generally, the network was first initiated by property developers to invite China-based enterprises to participate joint venture businesses in Hong Kong. In July 1979, K.S. Li involved two large-scale investments with China-based enterprises. One was a joint venture with Kiu Kwong, a China-based property company, to co-develop premises above Sha Tin railway depot. The other one was a co-operation with China- and America-based corporations to establish the China (Hong Kong) Cement Co., Ltd. At the same time, K.S. Li made a substantial donation of US \$85 million to set up a university for 5,000 students in Shantou, near his hometown of Chaozhou in Guangdong province (Reyes 1997, p.45). In fact, many Hong Kong well-known tycoons have made generous donations to construct hospitals, schools, universities and temples for the worship of ancestors in their native places or in locations nearby.



The efforts channelling into promoting a close relationship with Chinese top officials were rewarded when K.S. Li was invited by CITIC Pacific into the Board of Directors on 2 October 1979. This year also witnessed K.S. Li become the first Executive Director controlling a formerly British hong — Hutchison Whampao. In this way, K.S. Li's group — Cheung Kong — has become the most important business group not only in terms of its market capitalisation, but also its connection with China. Later, K.S. Li's position in China's economy was further consolidated by being accepted as an honourable guest in meeting with China's top decision-makers like Deng Xiaoping (former Chinese President), Zhou Zhiyang (former Prime Minister) and Jiang Zemin (the current Chinese President).

Unlike the former Hong Kong government who usually appointed wealthy businessmen into the highest level of policy-making bodies, the Chinese government invited these businessmen into committees that allowed them to decide the future of Hong Kong Special Administrative Region (HKSAR). For example, K.S. Li was appointed a member in the Drafting Committee for the Basic Law of HKSAR and the Election Committee for the Selection of the Chief Executive and the Formation of the Legislation Council of HKSAR. In a way, China's cooption of Hong Kong tycoons into these committees follows the British government's strategy in reinforcing the dominance of big business in the Hong Kong political arena. This also explains why Hong Kong property tycoons are keen to cultivate relationships with top Chinese officials who are the ultimate decision-makers of HKSAR rather than government officials here. For instance, Cheung Kong constructed the new headquarters of the Chinese Foreign Ministry in Hong Kong for a relatively cheap \$800 million (or US \$102.6 million) by crews working around the clock (Gilley 1997a). Also, when Jiang Zemin came to Hong Kong for the June 30 handover ceremonies, K.S. Li provided free services by accommodating Jiang in the \$3,800-a-night presidential suite at his Harbour Plaza, a five-star hotel in Hung Hom.

On the other hand, by inclusion of Chinese top officials into the network, Hong Kong property tycoons not only preserve their influence in Hong Kong

economy intact, but also gain privileges in carrying out large-scale property and infrastructure projects in China. The development of Oriental Plaza in Beijing is a typical example. K.S. Li proposed to develop a vast property project near Tiananmen Square. The project had been approved by the former administration despite building heights violated regulations (70 m against a 24-m limit) ensuring the prominence of state buildings and Forbidden City that surround the square. Nevertheless, the project was stalled for three years after most of the Beijing leadership was purged in a corruption scandal. The project resumed in mid-1996 after Li's agreement to scale back the project size (a 30-m-tall building; Cheng & Vriens 1996, p.44). Completion is now set for the National Day, 1 October 1999.

In short, despite their lack of an established political organisation and of representation in both previous Hong Kong government and the current HKSAR government, Hong Kong property developers are closely related to the Chinese government through their network relationship. Derived from this relationship, Hong Kong developers are able to exert their powerful influence to Hong Kong's decision-makers to protect their businesses. Yet, even though they are a powerful group in the economy, their survival is much dependent on another key actor — the financial institutions — in the structure of owner-occupied housing provision in Hong Kong.

#### *Property developers and financial institutions*

The property market is now very much a part of the financial system. Previous chapters have indicated the importance of financial institutions in the process of property development. Capital investments in the property market can only be accomplished if over-accumulated production in other sectors can be transformed into capital that can move freely and unhindered into the property sector. Also, the Government's goal to promote home ownership by relying on the private sector to provide owner-occupied housing has further boosted the importance of financial institutions in maintaining adequate mortgages to home buyers. In such context, as Lefebvre has indicated, the secondary circuit (i.e., the real estate sector), from



being an 'accidental' means by which capital has decided to solve its accumulation problems in the primary circuit (i.e., the industrial sector), has now become an 'essential' mode of investment activity for the Late Capitalist economy (Gottdiener 1994, p.245).

The growing involvement of financial institutions in property development is well illustrated by the large property exposure in their investment portfolios. Statistics released by the Hong Kong Monetary Authority (HKMA) showed that property-related loans, that are loans for property development and investment as well as mortgages, accounted for 39.9 per cent of all loans for use in Hong Kong in March 1996. That figure climbed in subsequent quarters to 40 per cent in June, 40.8 per cent in September and to 41.7 per cent in December<sup>11</sup> (Fung 1997, p.9). As of March 1998, property-related loans stood at \$120 billion, 42 per cent of total lending (Zheng 1998, p.69).

Actually, property exposure has been increasing steadily since 1989. The rapid increase from 31.94 per cent in 1989 to 37.6 per cent in 1993 alarmed the HKMA (Fung 1997, p.10). In February 1994, HKMA formally introduced the 40 per cent threshold in lending for property development and investment. Yet, numerous schemes mushroomed in 1994 when banks co-operated with property developers, that is, banks providing 70 per cent mortgages while the developers came in with additional top-up loans. But, despite numerous warnings from HKMA, there had some banks already exceeded the 40 per cent exposure to the property sector<sup>12</sup>.

Because bankers invest so much money in property, many leading executives maintain close ties to property development companies. Simultaneously, all successful property developers must have good connections

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<sup>11</sup> Compared with banks elsewhere, Hong Kong banks' lending against real estate as a proportion of all loans to the private sector is relatively moderate. For example, in 1992 the ratio stood at 43% in the United States, 30% in France, 32% in the United Kingdom, 51% in Canada, 46% in Norway and 30% in Spain (Pryke 1994, p.168).

<sup>12</sup> For example, Bank of East Asia had 47% property exposure, Dah Sing 46% and First Pacific 45.9% in 1997 (Fung 1997, p.8).

with their own bankers, and no one will deny that the Hongkong Bank (formerly known as HKSBC) is the most influential bank in Hong Kong. The Hongkong Bank, from its origins to the present, has dominated the financial services industry in Hong Kong, and through the firms and business ventures it supported, guided the direction of economic development in the territory. In fact, the name of the Bank appears in the list of 'Principal Bankers' of all the top property companies identified in Chapter 4. The close relationship between property and banking sectors can also be seen by examining the list of the Board of Directors of Hongkong Bank which includes K.S. Li (Chairman of Cheung Kong), Henry M.P. Miles and Lydia S. Dunn (both formerly represented Swire Properties) and Sohmen L. Keswick (Chairman of Hong Kong Land).

To sum up, the interlocking relationships between bankers and developers, between developers and their counterparts, and between developers and political leaders either in Hong Kong or China, serve as a means of consolidating developers' power in Hong Kong economy. Indeed, Gottdiener (1994, p.220) observes that a network is formed which cuts across the private and public sectors, so that the two realms are indistinguishable. Thus, political leaders may also be significant owners of property, and may work with public advisory committees, such as Town Planning Board, that include large property owners. Hence, public officials are also privately interested parties who work with private citizens who have public positions that can foster their private interests. In some cases, given the attractiveness of investment in the secondary circuit, even the citizens, particularly those belong to middle-class, coalesce into networks who then become active agents in the property sector.

## **Conclusion**

This chapter has examined the degree of power, first in the Hong Kong housing market, then in the Hong Kong economy. The Tseung Kwan O case study demonstrates that developers do compete rigorously against each other in selling their housing units. While it is ultimately the market that determines prices of



units, developers are able to exert immense influence in the decision-making process of Hong Kong. By establishing network 'internal' and 'external' to Hong Kong society, developers are able to maintain control over their investments and sustain their dominance in society. On the other hand, the changing economic and political contexts of Hong Kong shape the developers' strategies in how to and with whom to build the relationships.

However, the first of July 1997 marked a new era for Hong Kong. The establishment of HKSAR sets a goal to solve the current housing problem. A ten-year housing plan was formulated to tackle the problem of inadequate supply, soaring prices and speculation. The next chapter therefore explores the effects of these policies in the structure of owner-occupied housing provision in Hong Kong.

## CHAPTER SEVEN

### HONG KONG OWNER-OCCUPIED HOUSING AND THE FUTURE

Home ownership is now promoted as a major housing tenure in Hong Kong. In order to achieve 70 per cent home ownership rate by 2007, the government of the Hong Kong Special Administrative Region (HKSAR) of the People's Republic of China designed a series of measures specifically to help meet this target. However, less than four months after its July 1 transfer of sovereignty from Britain to China, Hong Kong is in the midst of a confidence-battering economic slump. It was brought on by the regional financial meltdown triggered the day after the handover on 2 July 1997 when Thailand floated the baht. That led to massive drops on the relative value of currencies from South Korea to Indonesia and to intense speculative pressure on the Hong Kong dollar. Determined to defend the HK-US dollar link, the HKSAR government raised inter-bank lending rates up to 300 per cent on 23 October 1997. Banks also raised their prime lending rate from 8.75 to 9.5 per cent. The high interest rates and mortgage payments eventually pulled down property prices. Dominated by property counters, the Hang Seng Index fell to 8,775 on 28 October 1997. This was 47.8 per cent down from its historic high of 16,820 that was reached on 7 August 1997.

The bad news has kept coming. The regional economic downturn worsens an already severe slump in tourism<sup>1</sup>, and the retail sales volume is expected to show negative growth. With tight monetary conditions unlikely to ease soon, growth estimates have been revised sharply downward. A crude initial assessment suggests that the Gross Domestic Product (GDP) has suffered a decline of around 2

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<sup>1</sup> The tourist industry suffered a severe setback in 1997 with visitor arrivals falling 11% and the hotel occupancy rate dipping to 76%, the lowest level since 1991. In the first 2 months of 1998, visitors to Hong Kong dropped 24.5% against the same period last year (Hang Seng Bank 1998).



per cent in real terms in the first quarter of 1998 over a year earlier<sup>2</sup> (*Oriental Daily*, 30 May 1998). Along with the slowdown in economic growth, poor employment prospects are to be expected. The depth of Hong Kong's economic gloom has led to worries about the future of home ownership. There are also lingering doubts about HKSAR government's housing policies, particularly now that many citizens are facing increasing job insecurity following Hong Kong's diminishing competitiveness among its Asian neighbours.

This chapter will examine how HKSAR government expands the owner-occupied housing sector in Hong Kong. It then looks at the effects on the current structure of owner-occupied housing provision. Lastly, it assesses the possibility of owner-occupied housing to become the mainstream housing tenure in the next decade.

### **Expand owner-occupied housing sector**

To achieve a 70 per cent home ownership rate in 10 years, the Chief Executive, Tung Chee-hwa plans to accomplish this in two ways. The first is to increase the supply of residential land so that at least 85,000 new houses a year — 50,000 from the public sector and 35,000 from the private sector — can be constructed. The second is to widen the access to home ownership. Tung's approach marks a break from colonial policies of the past. Previously, the colonial government restricted land supply, keeping prices artificially high and ensuring healthy revenues from land sales. Tung's plan to increase the supply indicates a shift in priority from filling government's reserve to addressing the demands of potential home owners. The details of Tung's policies to increase land supply for housing and to promote home ownership are described below.

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<sup>2</sup> Hong Kong's real GDP was first forecasted to rise between 3 and 4% in 1998, down from 5.2% last year. The International Monetary Fund, however, expected the HKSAR's growth rate drop to 1.8% in 1998 (*SCMP*, 14 April 1998). The Organisation for Economic Co-operation and Development even forecasted that HKSAR's real GDP growth rate would fall to just 0.9% this year given that the sharp drop of properties prices had put banks under significant financial pressure, and this was likely that the Asian economic downturn would worsen (*SCMP*, 9 April 1998). Lately, HKSAR government admitted that a 3.5% GDP growth for 1998 as a whole was unattainable.

### *Strategies to increase owner-occupied housing production*

#### Increase residential land supply

To implement the pledge of providing at least 85,000 flats each year from the public and private sectors, the first strategy is to secure a steady and sufficient supply of residential land. Actually, the Government has allocated or identified sufficient land to meet its production target for both public and private housing up to March 2001.

The HKSAR's second land disposal programme, which gives detailed plans for the period from April 1998 to March 2000 and a forecast for the following three years, was announced on 31 March 1998. Under the programme, a total of 650 hectares of land will be released to provide 345,400 flats (Table 7.1). For the first period, the Government will sell 94 sites, amounting to 157 hectares, to produce 91,000 private and subsidised flats. They include six government quarter sites and former British military sites. The majority will be for the construction of mass residential flats, followed by Private Sector Participation Scheme (PSPS)

**Table 7.1** The HKSAR's second land disposal\* programme, 1 April 1998 to 31 March 2003.

	1998/99 - 1999/2000		2000/01 - 2002/03	
	Amount of land (hectares)	Estimated no. of flats	Amount of land (hectares)	Estimated no. of flats
Commercial/ Residential	51	25,500	20	12,900
High density residential	57	24,200	102	51,300
Low density residential	73	7,100	97	15,500
<i>Sub-total</i>	<i>181</i>	<i>56,800</i>	<i>219</i>	<i>79,700</i>
PSPS	36	34,200	12	10,100
Other public housing	69	67,900	133	96,700
<i>Sub-total</i>	<i>105</i>	<i>102,100</i>	<i>145</i>	<i>106,800</i>
<b>TOTAL</b>	<b>286</b>	<b>158,900</b>	<b>364</b>	<b>186,500</b>

\* including public auction, public tender and private treaty grant, but excluding land obtained from re-development.

Source: Sing Pao, 1 April 1998.



flats and then luxury flats. Also, among the lands for sale, nearly 60 per cent of them are less than 5,000 square metres, which aims to enhance the competitiveness of Hong Kong housing market by allowing small- to medium-sized developers more opportunities to bid.

For the period from April 2001 to March 2006, land for producing 480,000 new housing flats (96,000 flats on average a year<sup>3</sup>) has been identified. The new supply will come from land produced by (Hong Kong Housing Bureau 1998, p.7; HKSAR Government 1997b):

- (a) developing strategic growth areas in West Kowloon, Kai Tak-Kowloon Bay, Tseung Kwan O and Tung Chung-Tai Ho;
- (b) carrying out the Tsuen Wan Bay and Green Island reclamations;
- (c) re-zoning suitable agricultural and industrial areas for housing development where infrastructure capacity and environmental considerations permit<sup>4</sup>;
- (d) increasing the development density of public and private housing estates by improving supporting infrastructure and exercising flexibility in the application of planning guidelines; and
- (e) re-developing suitable old Hong Kong Housing Authority (HKHA) flatted factory estates.

Overall, in order to sustain the annual production of at least 85,000 flats, the five-year land disposal programme will be updated and rolled forward annually. However, the current economic crisis has posed immense obstacles in achieving this target. The biggest one comes from private property developers. With the property market in slump, property prices have fallen more than 30 per cent from their 1997 peak. The 30 per cent is a crucial level, since a larger drop could significantly increase banks' bad debts. The lending margin for residential

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<sup>3</sup> The extra 11,000 flats a year represents an additional 'safety margin', a 13% above the annual production target (Hong Kong Housing Bureau 1998, p.6).

<sup>4</sup> Between 1990 and 1997, 50 industrial sites, or about 160 hectares, were re-zoned for housing and associated development. In 1998, 80 hectares of surplus industrial land will be re-zoned to provide 70,000 flats. By 2011, there will be 115 hectares of surplus industrial land for re-zoning (SCMP, 24 February 1998).

property is capped at 70 per cent of market value, and a fall of over 30 per cent means the collateral held by the banks is worth less than the money lent out. Developers have therefore urged the Government to delay the implementation of its housing plans as any increase in supply would dampen the market further.

So, to reduce the banks' vulnerability and to ensure a 'soft landing' of property prices, the Government has changed its strategies. First, on 16 January 1998, the Government said that the sales method of large sites in the land disposal programme was switched from public auctions to public tenders. The main advantage of selling land through tenders is that if the bids are unable to meet the Government's target, the site can be withdrawn from sale without disclosing the bidding prices, thus, it can avoid significant adverse effects on the already depressed property market.

Yet, the above measure could not ease the dissatisfaction of developers with the new housing policy. Instead, to put additional pressure on the Government, property giant Sun Hung Kai announced on 22 January 1998 that it would suspend work on ten projects. Henderson also said that it had delayed the construction of residential projects in decentralised areas. Similarly, Cheung Kong and other developers have slowed construction, aimed at stabilising housing prices by controlling the rate of supply of private flats. However, the Secretary for Planning, Environment and Lands, Bowen P.W. Leung revealed that all the delayed projects belong to non-consent schemes (*Apple Daily*, 23 January 1998); for those in consent schemes (see Chapter 5), developments are governed by legislation, and therefore their progress has to be on schedule. Nevertheless, developers' effort can be regarded as 'an ultimatum' to the Government that 'if it holds on its planned target at any cost, it will see the banks in great trouble' (Law 1998, p.21).

Finally, on 9 February 1998, the Government conceded and announced that the Government would implement its land disposal programme flexibly, taking into consideration the state of the private property market. In consequence, the



Government has adjusted the land sales programme, including changing the monthly to the bi-monthly public auction schedule, delaying sales of residential land, withdrawing and trimming the size of sales and placing a greater proportion for sale by tender<sup>5</sup>. Overall, the Government adopts a more 'flexible' approach to planning sales for the next three years. Instead of forcing private developers to meet its target, the Government intends to proceed with its side of the plan — building 50,000 units a year. In a way, the Government has set up its land bank so that additional land can be put into the market when demand increases.

### Speed up the rate of housing production

To have an adequate land supply cannot solve the housing shortage problem without any improvement of the current housing development process. No one can deny that the biggest problem facing developers has been the lack of co-ordination within the Government in dealing with the development process. There are at least 20 departments within the Government (discussed in Chapter 5) that developers have to deal with. To exacerbate the already long and complex development procedures, contradictions frequently happen between departments in defining terms and regulations.

In order to break the bottlenecks within the Government, a task force known as the Steering Committee on Land Supply for Housing (HOUSCOM) was set up in April 1997. HOUSCOM is chaired by the Financial Secretary, and its members include the heads of various government departments in land and planning areas. Its main aim is to bring about a 'radical reform of planning and co-ordination functions within the Government' (*SCMP*, 15 October 1997) and to shorten production times for property developers.

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<sup>5</sup> For example, the Government withdrew a 914,940 sq ft residential site in Sha Tin from its sale plans. More than 20 sites were postponed and 11 government sites were switched from public auction to tender. Also, some sites were reduced in size, such as the Tuen Mun residential site to be sold through tender in March 1999 was cut from 1.61 million sq ft to 1.17 million sq ft (*SCMP*, 1 April 1998).

Subsequently, a package of measures to simplify and streamline various government planning, land and building approval processes for residential development was drawn up in October 1997. For example, in planning approvals, formal guidelines will be published to make more transparent the Planning Department's decision-making process, and district planning conferences will be held so that developers can present their applications in one central place instead of going through various departments. There also will be a stricter performance pledge to further shorten application lead time. In environmental approvals, the application process will be changed from the present case-by-case examination to follow a published set of standards. Also, projects less than two hectares in plot size will no longer need to get environmental approval. For building approvals, a centralised authority system will be set up, and that applications for foundation works will be simplified.

Most importantly, HOUSCOM intends to change the proceeding of housing development procedures, that is, rather than government procedures take place sequentially, new procedures will be followed in parallel. Also, more private sector expertise and resources will be employed. The Lands Department, for instance, has started contracting out some paperwork relating to the processing of the Deeds of Mutual Covenant<sup>6</sup> and pre-sale consents for unfinished property projects to the private solicitors to streamline its operation (*SCMP*, 22 October 1997).

But, housing development must be complemented with associated infrastructure facilities. To keep up housing supply, infrastructure development funding will rise from \$1.2 billion to \$11.4 billion over the period 1997/98 to 2001/02 to accelerate housing-related infrastructure. A large proportion of funding will be used to construct extensive railway systems, including the West Railway from West Kowloon to Tuen Mun, the Mass Transit Railway Tseung Kwan O Extension and the Kowloon-Canton Railway Ma On Shan Extension. This will

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<sup>6</sup> Deed of Mutual Covenant is a document setting out the rights and obligations of property owners as well as the terms of property management.



boost land supply and help implement road and rail projects to open up land for housing projects. Furthermore, more housing-related infrastructure construction works will be contracted out. A recent example is the pilot scheme to allow developers carry out through their own contractors public works such as water supply connections.

Finally, to ensure the delivery of housing projects on time, HOUSCOM has compiled an inventory of all housing developments in Hong Kong. Three government departments have been assigned to monitor progress site by site. The Director of Housing oversees public sector housing projects, including those undertaken by PSPS, but excluding projects undertaken by the Hong Kong Housing Society (HKHS). For private housing developments, including those undertaken by the HKHS, the Director of Lands has overall responsibility for all stages up to flat completion. Then, within new towns, strategic growth areas and major development areas, the Director of Territory Development is responsible for delivering public housing sites to the Director of Housing for flat production and delivering private housing sites to the Director of Lands for disposal (Hong Kong Housing Bureau 1998, p.14).

So far, the overhaul of the housing development process has resulted in a significant reduction of the development lead time for public housing: in the case of the HKHA, from 62 months to 47 months, and in the case of the HKHS, from 52 months to 46 months. Despite numerous efforts having been spent in speeding up the housing production process, it cannot guarantee that developers will not halt their construction if the market is in recession. Currently, for projects under consent scheme, developers are required to complete construction of flats within three to five years. If they fail to do so, they are subject to a fine that will increase each year. The Government has the power, too, to take back the whole piece of land. Yet, the Government has no power to force developers into selling the completed flats if they prefer to rent them. So, ultimately, it is the market that determines how many private units will be available for sale.

### Encourage private developers to increase housing production

Two issues are relevant here. One is to speed up urban renewal, and another is to invite private developers to provide more subsidised owner-occupied housing.

### SPEED UP URBAN RENEWAL

Chapter 5 revealed that about two-thirds of the total private sector housing production over the past ten years has come from re-development of existing sites throughout Hong Kong. Given that the large stock of old or inadequate housing in the urban area, urban re-development will be another major source of new residential land. At present, 20 per cent of private housing, or 113,000 units, are 30 years old, and at current rates of re-development, the stock will increase to about 40 per cent, or 260,000 units, by 2006 (Razack 1997, p.2).

To carry out urban renewal, the central problem is site assembly. According to current legislation, the Land Development Corporation (LDC) or private developers cannot re-develop buildings unless all owners agree. This poses an immense obstacle as many projects cannot materialise due to a small number of owners who cause problems. Difficulties in determining some flats' ownership often hinder urban renewal projects. As a result, LDC projects today have typically taken up to nine or 10 years from inception to completion (*ibid.*, p.4). So, in an effort to boost the private sector's role in speeding urban renewal, the Land (Compulsory Sale for Redevelopment) Bill is proposed. Under the new legislation, the majority of owners of private premises can apply to the Lands Tribunal to sell the whole building if 90 per cent of them agree to the re-development (*SCMP*, 15 January 1998). In a way, the new bill will ensure private re-development would continue to contribute significantly to the Government's annual flat production target.

In addition, an Urban Renewal Authority is being planned to replace the LDC in 1999, and will be provided with statutory power to expedite urban re-development on a larger scale and in a more comprehensive manner. In the



meantime, LDC has identified more than 300 urban renewal projects involving more than 3,000 buildings and about 42,000 households. It covers a population of 114,000 (*SCMP*, 27 December 1997). These projects comprise large-scale, truly comprehensive schemes that allow actual re-planning of the affected districts as well as smaller-scale projects with more limited objectives of removing substandard and dangerous buildings.

On the other hand, private developers are taking advantage of current depressed market sentiments to actively initiate or participate in property re-development projects. For example, despite the property slump, Sino, Cheung Kong, Great Eagle Holdings and Sun Hung Kai expressed their interests to participate the LDC'S re-development of two housing projects — one in Tsuen Wan and one in Kennedy Town (*SCMP*, 23 October 1997). In fact, developers are grasping the opportunity to bargain with the Government for lower land premiums for their re-developed sites. Yet, only developers having strong financial backing can benefit from the cyclical downturn in the property market to replenish their land banks by securing lower land values.

#### PROMOTE MIXED DEVELOPMENT

To upgrade the quality of public owner-occupied housing above that provided under the present PSPS, a pilot scheme is proposed to invite developers to build subsidised home ownership flats as part of a mixed development. Under this scheme, residential sites will be offered for sale by tender. The successful developer will be required to hand over at least 30 per cent of flats within the development to the Government for sale to public tenants or low-income families at designated prices. In exchange, developers will get cheaper land.

The HKHS is appointed to help work out details of the new scheme, and two sites in West Kowloon and Tin Shui Wai have been assigned to provide over 500 subsidised home ownership flats by 2001 (Hong Kong Housing Bureau 1998, p.17). However, the scheme is strongly opposed by private developers. A

representative of the Real Estate Developers Association of Hong Kong claimed that, 'the scheme will pose serious problems for marketing as we are facing two batches of buyers who are going to buy flats of the same quality at different prices' (SCMP, 3 February 1998). And, the cheaper units that are randomly chosen by the Government will affect the value of the private housing portion of the development since ordinary home buyers paying higher market prices do not want a neighbour of a low-income family. To reduce the bad effect on selling the other non-subsidised units, the association suggested that the developer should have a say in deciding which flats are given to the Government. Given the resistance from large developers<sup>7</sup>, it is questionable whether a pilot scheme can be carried out in early 1998. Yet, the proposed scheme can be seen as a way to involve the private sector in increasing choices to buyers of subsidised homes.

### **Strategies to promote home ownership**

In the White Paper on the Long Term Housing Strategy (LTHS; covering the years between 1997 and 2007) that was released in February 1998, three direct strategies are proposed to give every incentive to public rental housing (PRH) tenants who have increased their incomes to be home owners. However, the greatest impact on the growth of home ownership is the indirect measures, that are those strategies to restrict the number of people using the public housing services. Then, there are other strategies designed to relieve financial burdens in buying owner-occupied housing units in the private market.

#### *Encourage PRH tenants to be home owners*

##### Direct Strategies

The first direct strategy is the sale of PRH flats to sitting tenants. Following the failure of the Sale of Flats to Sitting Tenants Scheme in 1991 (see Chapter 2, footnote 27), the new Tenant Purchase Scheme (TPS) is intended to sell off

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<sup>7</sup> In the interview with Daniel Lau, the Property Development Manager of the HKHS, he revealed that in order to obtain a good public response of the pilot scheme, only large scale private housing projects would be chosen.



250,000 PRH units in the next ten years. The first batch of 27,000 flats located in six PRH estates<sup>8</sup> were put up for sale in January 1998. Flats prices are ranging between \$62,000 and \$340,000 — about 12 per cent of the assessed market value. Also, two of the Hong Kong's largest banks (Hongkong Bank and Hang Seng Bank) offer 100 per cent loans and mortgage interest rates up to 1.5 per cent lower than the current prime rate to families buying their own PRH flats. The loan repayment period stretches to a maximum of 25 years (*SCMP*, 25 February 1998).

Given the extremely attractive prices offered, almost 80 per cent of the 27,000 families of the batch selected have shown an interest. Over 10,000 families have paid deposits for the purchase. More than 2,000 families (up to 9 May 1998) have signed the assignment and become owners of their PRH flats (*Oriental Daily*, 10 May 1998). On the other hand, the success of TPS severely affects the latest sale of the HOS units. More than 100 HOS buyers defaulted on their purchases in January, soon after the TPS was launched (*SCMP*, 11 March 1998). In order to avoid competition between the two schemes, the Housing Department announced those estates of the following three batches that will be offered for sale from 1999 to 2001. Each batch will comprise an average 28,000 flats, locating in 18 PRH estates. This measure is to ensure PRH tenants have time to consider different housing schemes and to avoid defaults. Also, applicants for each HOS will have all information about housing estates for sale in the next two years under the TPS.

The second strategy is to expand the Sandwich Class Housing Scheme to current and would-be PRH households. As more than one in ten PRH tenants belong to the most affluent one-quarter of income-earners<sup>9</sup>, there are many PRH tenants and prospective tenants fall within the sandwich-class income criteria, that is, monthly household incomes between \$30,001 and \$60,000. So, in giving more choice to them, more PRH units can be vacated for new comers.

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<sup>8</sup> The 6 estates are Wah Kwai in Pokfulam, Funk Tak in Wong Tai Sin, Heng On in Ma On Shan, Cheung On in Tsing Yi, Kin Sang in Tuen Mun and Wan Tau Tong in Tai Po. The estates involve 36 blocks that were built between 1985 and 1992.

<sup>9</sup> Housing Department in a recent survey found that 13% of PRH tenants were estimated to own private properties in 1994 (<http://www.info.gov.hk/hb/chart19.gif>).

The last strategy aims to provide new opportunity for potential PRH tenants to be home owners. The new 'Buy or Rent' scheme will give applicants at the top of PRH waiting list the choice of buying a flat in a new block or renting in an older estate. In the meantime, prices under the new scheme have not been fixed, but monthly mortgage payments would be about 20 to 30 per cent of the average family income. Clearly, the scheme intends to shorten the time to become assisted home owners by by-passing the interim stage of PRH.

All in all, the three direct strategies contribute significantly not only to raising the home ownership rate, but also to clearing the backlog on the 148,000 households waiting for PRH allocation that will in line with Tung's pledge to cut the waiting time for PRH from the present six-and-a-half years to three years by 2005. Most importantly, the sale of PRH units to sitting and potential tenants can reduce the heavily subsidised public housing sector. Given that there are 660,000 units in 160 PRH estates, tax-payers are contributing about \$2.5 billion a year (*SCMP*, 18 November 1997). According to the latest report, the Housing Department will be run into a deficit of \$7-8 billion by 2000 in upkeeping the large PRH stock (*Express News*, 9 December 1997). By selling some of the stock, even under great discounts, can halt the growth of deficit in future.

### Indirect Strategies

There are two indirect strategies that can exert a significant impact on the growth of home ownership among PRH tenants. The first one is the application of means-test to the existing PRH tenants after ten years' residence and every two-year thereafter<sup>10</sup>. The second strategy is the introduction of means-test to the child of a deceased tenant who wants to inherit the tenancy. These two strategies limit the security of tenure and ensure a high turnover of households. They also make PRH less attractive than owning and in a way compel sitting tenants to buy flats.

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<sup>10</sup> The application of comprehensive means-tests, covering both income and net assets, to existing PRH tenants has been introduced in April 1997. PRH tenants after 10 years' residence and every 2-year thereafter are required to make an income declaration. Those households whose income exceeds 110% of the Waiting List Income Limits are required to pay market rent.



In this connection, it is clear that the Government regards public housing as not only a form of social welfare, but also a stepping stone to home ownership (Hong Kong Government 1997a, p.ii). Thus, it is not surprising to find that the Government tries every possible way to encourage PRH tenants to become assisted home owners. The Government has explained clearly that public housing resources should be fairly distributed and targetted to those who are in genuine need. For those well-off tenants who can afford homes, they should vacate their rental flats for the truly needy. Otherwise, they either buy their own homes or pay market rent.

*Provide financial relief to home buyers*

The above strategies mentioned aim to promote home ownership in the public sector, but for the private sector, three strategies are implemented to relieve the financial burden in becoming home owners.

The first one is offering loans to first time home buyers. A new 'Home Starter Loan Scheme' (HSLS) will be launched to help 6,000 families in each of the next five years, and it covers a wider population than the current Home Purchase Loan Scheme (HPLS) and the Sandwich Class Housing Loan Scheme. The former targets at families who meet the income and other criteria for the purchase of HOS/PSPS flats to have an alternative of an interest free down-payment loan for the purchase of a new private sector flat. The latter only provides loans to sandwich class families whose income falls at \$30,001 to \$60,000 a month. For this new scheme, households with monthly income not exceeding \$70,000 and their net asset not worth more than \$1.2 million are eligible to apply for a maximum loan of \$600,000, or 30 per cent of the price of the property, whichever is lower. There is no upper limit on the value of the property, but the maximum age of property is 30 years. The HSLS buyers will not have to begin repayment until the fourth year after obtaining the loan, and they will have ten years to pay off the debt. Households earning less than \$30,000 a month will be charged an annual

interest of 2 per cent while those earning more than \$30,001 a month, the interest rate is 3.5 per cent.

The second strategy is intended as a confidence booster in the current property slump. A mortgage tax relief is introduced in the Financial Budget 1998. Under the scheme, home owners can claim a deduction of a maximum of \$100,000 per annum from their salary incomes for their mortgage interest payment on owner-occupied flats. This means a maximum saving of \$17,000 per year, or about \$1,400 a month, for a home owner. More than 500,000 home owners are expected to benefit from the tax relief. However, compared with similar schemes provided by many western countries, Hong Kong's home mortgage relief is very small. For instance, in the United States, the mortgage relief is much more generous, with the ceiling at US \$1.1 million per year. Almost all American home buyers are able to claim 100 per cent tax recession on mortgage interest payment, and the benefit is available any time (Wood 1990, p.811) whereas the Hong Kong scheme restricts each individual home buyer to claim the relief for only five years in his/her life. Given the relatively low level of mortgage relief, clearly buyers or owners of smaller properties will enjoy the greatest benefit. On the other hand, combined with HSLS, the scheme will boost the secondary market of HOS that has received a lukewarm response since it was launched in June 1997<sup>11</sup>.

The last strategy is the introduction of fixed-rate mortgage interest payment. This can be regarded as a counter-measure to reduce the effect of raising interest rates to safeguard the HK-US dollar peg. Initially, the Hong Kong Mortgage Corporation Ltd. (HKMC) was set up by the Government in March 1997 through the Exchange Fund, and had an initial working capital of \$1 billion. The HKMC aims to increase the amount of mortgage finance available to home buyers by issuing mortgage-backed securities after purchasing mortgage loans from authorised banks and deposit taking companies. However, after the Asian currency

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<sup>11</sup> A secondary market of HOS was established in June 1997 that allows owners of HOS/PSPS to sell to an existing or prospective PRH tenant from the 4th year on at a negotiated price without paying a premium to HKHA. This aims to increase the turnover of subsidised owner-occupied housing



crisis, banks have taken a cautious approach in granting mortgages and property valuations. Home buyers increasingly find difficulties to get financing, or contribute more their household income to pay mortgage payments.

To boost the debt market and shelter home buyers from high interest rates, HKMC introduces fixed-rate mortgages. Currently, only two banks — Chase Manhattan Bank and Dao Heng Bank — participate the six-month pilot scheme to test market response. Under the pilot scheme, mortgages written by the two banks at a fixed rate of 10.5 per cent for the first three years with maturities from ten to 25 years will be eligible to be sold to the corporation. HKMC will then purchase written fixed-rate mortgages on a loan-by-loan basis. This means that banks will never book the loans on their balance sheets and need not take the interest rate risks. The size of individual loans under the scheme should be less than \$4 million<sup>12</sup>. In other words, the scheme covers small- and medium-sized owner-occupied units not worth more than \$5.71 million. Despite the total amount of loans to be written under the scheme, at \$500 million, comprise only a small share of the HKSAR's total outstanding mortgages, the scheme offers an additional choice of mortgage finance that can protect home buyers from adverse movements in interest rates.

Overall, strategies to relieve financial burdens of home buyers will provide significant benefit to those buying cheaper flats where speculators tend to be less active. There were arguments that these policies would send prices soaring again; however, with interest rates still high and Hong Kong only just beginning to feel the effects of the economic downturn, any revival in property prices was likely to be short-lived. Nonetheless, given the Government's painstaking effort to increase the land supply in order to meet Tung's target of 85,000 new flats a year and to achieve a home ownership rate of 70 per cent by 2007, there are certainly impacts on the existing structure of owner-occupied housing provision in Hong Kong.

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units. However, the transactions were far from satisfactory. Up to 30 November 1997, only 610 of 100,000 subsidised homes were sold (*Express News*, 10 December 1997).

<sup>12</sup> The ceiling of individual loans under floating-rate home loans is \$8 million, and only loans with a repayment record of at least 6 months before they are eligible to be sold to the HKMC.

### **The future structure of owner-occupied housing provision in Hong Kong**

A historical analysis of the development of housing policies in Hong Kong revealed that there has been an increasing degree of government intervention in housing since the early 1950s. Initially, the colonial government concentrated in the provision of public housing to low-income families, leaving entirely to private sector to provide owner-occupied housing to families who were able to afford without any financial assistance. But, starting from 1976, HOS was drawn up to provide public sector owner-occupied housing units. Later, PSPS was launched as a result of the Real Estate Developers Association's expressed anxiety over the entry by Government into the domestic flats-for-sale market. Since 1977, private-sector developers have participated in public owner-occupied housing provision. However, the contribution of Government in overall owner-occupied housing provision was very small. Private developers were the major supplier of domestic flats for sale.

But, starting from early 1980s, housing aspirations had risen substantially in parallel with the improving affluence of society (see Chapter 2). Households were now willing to spend a larger proportion of their income on housing. Therefore, the Government expected an increasing number of households willing to own house instead of renting PRH. This had prompted the Government to shift its orientation in housing provision by relying more heavily on market forces.

Hence, the 1987 LTHS stressed the importance of the private sector in the housing supply. At the same time, the Government encouraged housing demand in the private sector by lending down-payments to households, especially those who were willing to give up their tenancies in PRH. Government hoped that by promoting home purchase amongst potential home buyers, the private sector's resources could be fully utilised. However, previous chapters described demographic and economic changes, building cycles, fluctuation in housing prices, restriction of land supply, slow processing of lease modifications and severe speculative activities that could affect it. Reliance on the private sector alone to produce housing was therefore proved unsuccessful. Subsequently, the



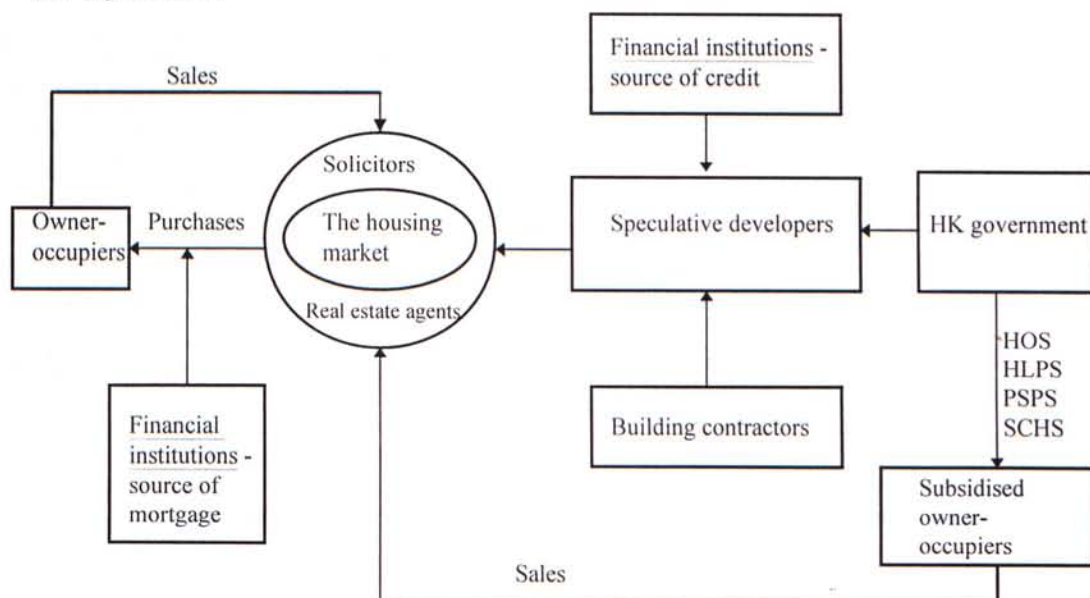
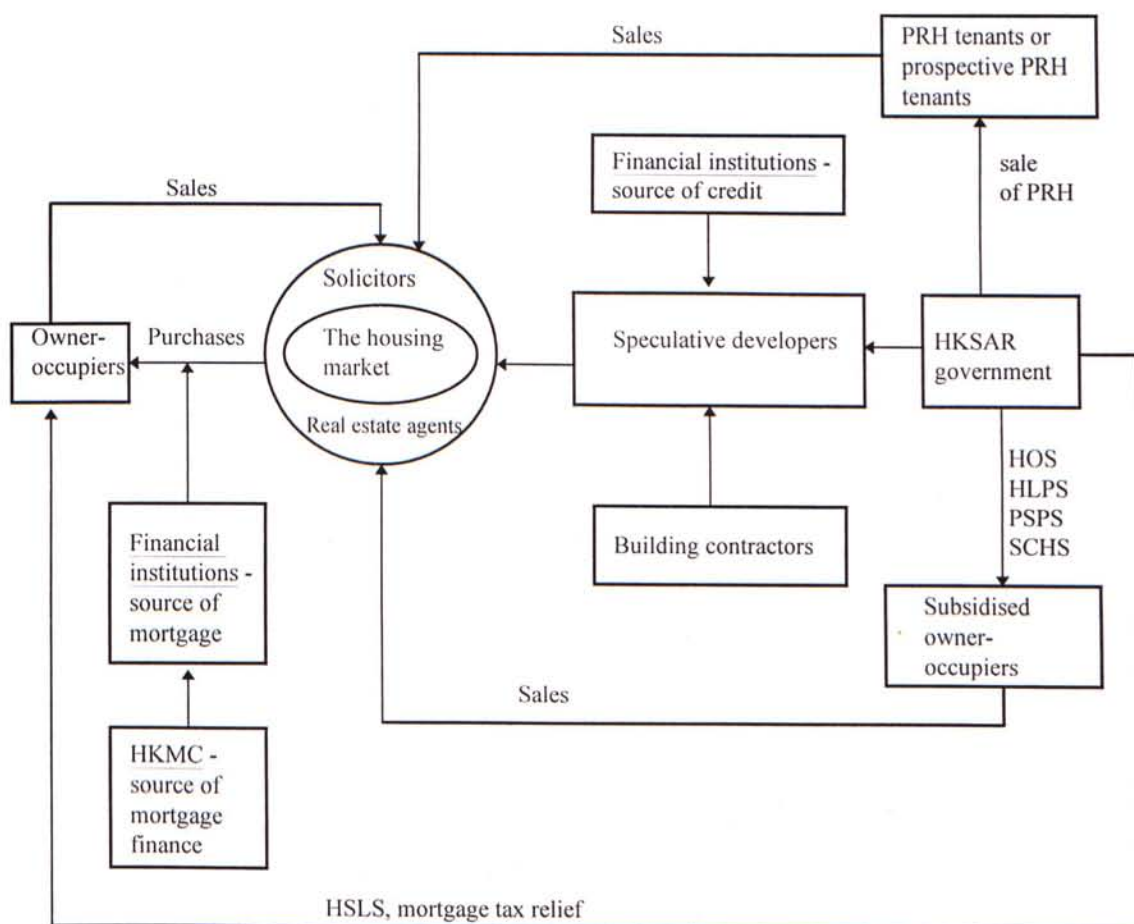
Government introduced the Sandwich Class Housing Scheme, and expanded the HOS/PSPS to guarantee the housing supply. In other words, the Government has begun to make public owner-occupied housing schemes as a flexible arm for housing provision. Increasingly, the Government has upgraded PRH blocks available in the market for sale. In this way, the amount of saleable units could be adjusted in accordance with housing demand.

The escalating housing prices resulted from the shortage of owner-occupied housing units in 1990s became a political concern of the HKSAR government. In response, drastic measures have been introduced to push down prices to a 'reasonable' level. Instead of reliance on the private sector, the HKSAR government now becomes the major supplier of owner-occupied housing. In addition to the already-expanded subsidised home ownership schemes, the Government has begun to privatise its public housing<sup>13</sup>. By selling off PRH to enlarge the owner-occupied housing stock, the Government has directly competed with private developers in the housing market.

Figure 7.1 shows the change of the structures of owner-occupied housing provision in Hong Kong. The new structure of owner-occupied housing provision has profound implications for the future housing market performance. On the one hand, the sale of 25,000 PRH units annually (almost equivalent to the annual production of private housing units) will gradually change the owner-occupied housing stock. Table 7.2 and Figure 7.2 present projections in public and private owner-occupied housing stocks in selected years. By 2003, the public sector will constitute over one-third of the total owner-occupied housing stock. Residential differentiation between public and private owner-occupied housing will be apparent. The direct involvement of the Government at the lower-end of housing market has forced developers to concentrate their developments at the upper-end

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<sup>13</sup> Kwong (1992) identifies that the practice of privatisation in Hong Kong housing is an incremental manner. The Government first adopted the corporatisation approach by setting up of independent statutory bodies to be responsible for the full operation of services. These corporations receive the asset transferred from the Government and operate according to commercial principle. Then, commercialisation approach is used, that is, contracting out services without transfer of assets. Currently, the Government has begun the transfer of public housing assets to private sector.

*(a) before 1998**(b) after 1998*

**Figure 7.1** Structures of owner-occupied housing provision in Hong Kong before and after 1998.

Source: after Ball (1983) Fig. 1.2.

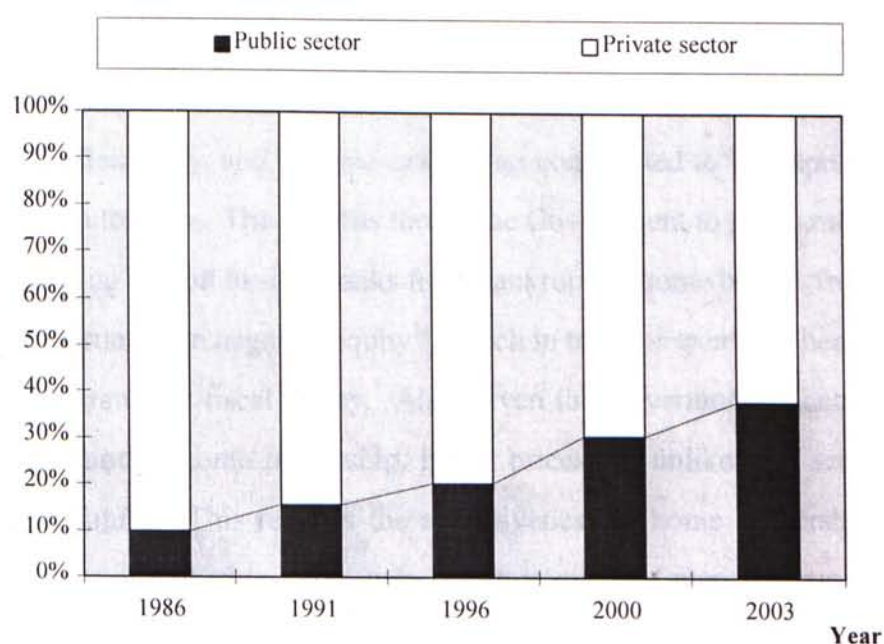


**Table 7.2** Owner-occupied housing stock projection, 1986-2003.

Types of owner-occupied housing	1986 <sup>(a)</sup>		1991 <sup>(a)</sup>		1996 <sup>(a)</sup>		2000		2003	
	000s	%	000s	%	000s	%	000s	%	000s	%
I. Public sector										
(i) HKHA flats <sup>(1)</sup>	66		130		204		317 <sup>(3)</sup>		392 <sup>(3)</sup>	
(ii) HKHS flats <sup>(2)</sup>	-		1		6		20 <sup>(b)</sup>		30 <sup>(b)</sup>	
(iii) previous PRH flats	-		-		-		50 <sup>(4)</sup>		125 <sup>(4)</sup>	
Sub-total	66	10.0	131	15.6	210	20.3	387	30.3	547	37.7
II. Private sector <sup>(5)</sup>	592	90.0	707	84.4	824	79.7	889 <sup>(6)</sup>	69.7	905 <sup>(6)</sup>	62.3
<b>TOTAL</b>	<b>658</b>	<b>100.0</b>	<b>838</b>	<b>100.0</b>	<b>1,034</b>	<b>100.0</b>	<b>1,276</b>	<b>100.0</b>	<b>1,452</b>	<b>100.0</b>

- Notes: (1) Include HOS, PSPS and MIHS.  
(2) Include FFSS and SCHS.  
(3) Up to 31.3.1998, the total stock of HOS/PSPS was 266,266 (refer Appendix III). The average annual flat production in public sector is 50,000. In this table, it is assumed that half of these new flats is for sale.  
(4) Starting from April 1998, 25,000 PRH units will be sold annually to sitting tenants.  
(5) Assume 80% of private housing stock are for owner-occupation. The stock figures on private housing are based on the Register of Quarters maintained by the Census and Statistics Department. They include: (i) private flats built mainly for residential purposes; (ii) HKHS's UIS flats; (iii) Hong Kong Settlers' Corporation's rental flats; (iv) staff quarters purposely built/provided by government, hospitals, private companies, etc.; (v) villas, bungalows/modern village houses; and (vi) simple stone structures.  
(6) Up to 31.3.1998, the total private housing stock was 1,030,000 units. In 1996/97 and 1997/98, only 19,875 and 18,200 new private residential units were produced respectively (see Fig. 6.1). It is estimated that there will be around 30,000 new private units for sale in 1998/99. Then, starting from 1999/2000, private sector will provide 35,000 flats each year. Also, because of the government's policy to promote home ownership, it is assumed that 90% of private units will be for owner-occupation.

Sources: (a) HKHA (1996a).  
(b) HKHS's correspondence dated 5 June 1997.

**Figure 7.2** Owner-occupied housing stock projection, 1986-2003.

market. On the other hand, the current economic recession has eliminated smaller developers who in the past were very active in this sub-market. This reinforces the business concentration in the housing development industry — HKHA in the housing provision of lower-to-medium sized units while large developers in larger sized units.

Furthermore, the high interest rate and the uncertainty of Hong Kong economy have induced large developers to change their operations. Since the Government announced the targetted annual production of 85,000 flats in 1997, the glorious days of developers reaping super-normal profits have gradually passed. Despite developers having slowed construction to aim at stabilising housing prices, they cannot postpone completion indefinitely as they rely on progressive sales to raise as much money as possible to offset the downturn in the residential market. In order to minimise the risk in property development, some large developers, such as Cheung Kong and Sun Hung Kai, have shifted their investment to rental premises and increasingly diversified their businesses into other sectors. In future, Hong Kong's property industry will be just like other manufacturing industries that reap a moderate profit margin, that is just more than ten per cent a year (*SCMP*, 25 February 1998).

Overall, the deep involvement in housing provision by the Government has led to a decrease in flexibility, and to some extent, has contributed to widespread loss of government autonomy. The loss has forced the Government to pump more money into the housing market to save banks from bankruptcy, home buyers from defaulting and properties from negative equity<sup>14</sup>, which in turn has exerted a heavy burden on the Government's fiscal policy. Also, given the Government's heavy commitment in promoting home ownership, house prices are unlikely to see a drastic increase in future. This reduces the attractiveness of home ownership. Together with factors described in detail below, the prospect of owner-occupied

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<sup>14</sup> Negative equity is defined as the situation in which the (estimated) market price of a property has fallen below the original mortgage advance that was used to buy that house. Hence, the owner finds that the size of his/her outstanding mortgage is larger than the value of his/her property.



housing to grow towards a mainstream housing tenure is beset by doubts and questions.

### **Future prospects of home ownership**

Firstly, it seems unlikely that owner-occupied housing can expand to become a major new source of low-to-middle income housing without vastly increased government subsidies. Even in the current period of economical downturn, HKSAR government has managed to increase funding to housing. However, the effect of economic recession will diminish sources of government revenues, particularly those from land sales and property transactions. On the other hand, Government has to maintain a huge financial reserve to protect it from any speculative activities against the Hong Kong dollar. Some commentators have already pointed out that investment in owner-occupied housing should not be at the expense of the construction of public housing (*SCMP*, 18 February 1998). In fact, the demand of public housing may increase due to new arrivals from Mainland China<sup>15</sup>, newly married couples, divorcees and returning migrants<sup>16</sup>. In this respect, heavy commitment to promote home ownership will become a serious financial burden in future.

Secondly, public demand for home ownership may drop. Even though the income of domestic households increased from \$5,160 in 1986 to \$9,964 in 1991 and to \$17,500 in 1996 (Census & Statistics Department 1996), the social, economic and demographic changes in coming years pose immense barriers for many people to become home owners. In fact, the extensive employment shift from manufacturing to services industries<sup>17</sup> has produced a rising income

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<sup>15</sup> At present, the quota of legal entrants from the mainland stands at 150 per day or about 55,000 per year.

<sup>16</sup> In fact, many of the returned migrants were attracted by the territory's brighter prospects after mid-1997. This was reflected by a net inflow of 158,800 people to Hong Kong between mid-1996 and mid-1997, accounting for 83% of the population growth over the period (Hongkong Bank 1998).

<sup>17</sup> The share of manufacturing workers in the total workforce was dropped from 41% in 1981 to 28% in 1991, and will be estimated to reduce to 13.7% by 2001 (Education & Manpower Branch 1994, p.24). On the other hand, the employment share of the services industries, which comprises of the distributive and catering trades, transport services, business services and community and

inequality. Meanwhile, the average labour earning in the manufacturing sector is declining. Table 7.3 shows that the wage indices for manufacturing sector and skilled labours were decreasing in real terms. Moreover, the average monthly salary of personal services was substantially below the average of all selected occupations. In consequence of these, the gap between the rich and the poor has been widening in the 1990s.

**Table 7.3** Wage indices (September 1992 = 100) and average wage rates by broad occupation group.

Broad Occupational Group	Nominal Wage Index(1)		Real Wage Index(2)		Average Monthly Salary
	Sept 1996	Sept 1997	Sept 1996	Sept 1997	(Sept 1997) \$
Manufacturing	135.0	142.2	100.8	100.8	9,551
Wholesale, retail & import/export trades, restaurants & hotels	136.4	147.0	101.9	104.2	11,696
Transport services	139.9	149.7	104.5	106.2	13,062
Financing, insurance, real estate & business services	143.2	153.8	106.9	109.1	11,134
Personal services	141.0	149.0	105.3	105.7	6,942
<i>All selected industries</i>					
Craftsmen & operatives	131.4	140.3	98.1	99.5	379(3)
Supervisory, technical, clerical & miscellaneous non-production workers	139.3	149.2	104.0	105.8	11,394
<b>All selected occupations</b>	<b>137.6</b>	<b>147.3</b>	<b>102.8</b>	<b>104.5</b>	<b>11,113</b>

Notes: (1) Nominal wage index is measured by payroll per person.

(2) Real wage index is the normal wage index after discounting changes in consumer prices.

(3) The figure is an average daily wage.

Source: Census and Statistics Department (1998a) Tables 2.7 and 2.8.

As a result of economic restructuring, the incidence of shedding redundant labour has frequently occurred. Also, technological advancements de-skill and degrade some of the middle-income jobs. For example, the very well-paid and highly-skilled personal assistants in big corporations are replaced by lower-paid and less technical clerical workers using computers. At the same time, the labour

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personal services was increased from 47% in 1981 to 62% in 1990. By 2001, it is estimated that every 4 out of 5 workers will be engaged in services industries (ibid., p.26).



market is becoming more 'flexible', leading the growth of contractual staff and part-time employment. All these changes imply that some of the middle-income families slip into lower-income classes. In classifying all households in the form of decile distribution, Table 7.4 shows that the share of middle-income families is shrinking. It dropped from 36.1 per cent in 1981 to 33.6 per cent in 1996. Furthermore, the current Asian financial crisis has induced firms shedding a great number of middle managers. This means that not only the gap between the rich and the poor widens, but also the difference between middle- and higher-income families.

**Table 7.4** The distribution of lower-, middle- and higher-income households in Hong Kong, 1981-96.

Household group	1981 <sup>(a)</sup> (%)	1986 <sup>(b)</sup> (%)	1991 <sup>(b)</sup> (%)	1996 <sup>(b)</sup> (%)	Monthly household income level as at 1996 (\$) <sup>(b)</sup>
Lower-income (decile groups: 1-6)	28.7	28.8	26.8	24.6	less than 22,000
Middle-income (decile groups: 7-9)	36.1	35.7	35.9	33.6	22,000 - 56,000
Higher-income (decile group: 10)	35.2	35.5	37.3	41.8	over 56,000

Sources: (a) *Hong Kong Economic Times*, 12 February 1997.

(b) Census and Statistics Department (1996).

Recently, unemployment and under-employment became prominent. The unemployment rate reached a 15-year high of 4.2 per cent between March and May 1998, and the under-employment rate was 2.6 per cent. That was the highest since April-June 1984 when unemployment rate was 4.4 per cent (*SCMP*, 16 June 1998). Because of the recent financial upheaval in the Asian region, the retrenchment in the financial services, retail, property and hospitality sectors will increase unemployment to 8 per cent by the end of 1998 (Sender 1998).

Hence, the overall picture of the 1990s is an increasingly insecure environment with constant threats of unemployment, de-skilling and degrading in many lower- and middle-waged jobs. In the face of Asia's economic downturn, not

only households on lower incomes, but also middle-income families are more vulnerable to these changes in economic circumstances. Lately, there has been a large drop in the number of people applying to buy government-sponsored housing<sup>18</sup>. Hong Kong people expect little or nothing in the way of salary increases and bonuses for the next couple of years. It may take them three to five years to recover their purchasing power and be able to buy flats. Even though Hong Kong economy will ultimately recover from its current crisis, given the long-term security of income is increasingly rare in all sectors of the labour market, the preference of home ownership will not return to its 'normal' state (Doling & Ford 1996, p.170). Because mass home ownership in Hong Kong has been predicated upon loans taken out against future income, the low expectations that the labour market will regain its former self mean that the potential risk of default (and with it re-possession and financial loss for both buyer and lender) are likely to remain substantial. So, in the long run, the demand for owning will be muted.

Thirdly, recent institutional development of financial markets and government's home ownership promotion policy may induce a change in the nature of demand for home purchase. To give more profundity to the financial market in Hong Kong, the Government has started to promote bond markets in the late 1980s. This development may facilitate long-term investment in Hong Kong and encourage a transfer of funds from the property market. Moreover, the Government started the Mandatory Provident Fund<sup>19</sup> in 1998. The development of pension funds under the Fund will channel savings of households to the financial market, presumably out of property investment. Most importantly, the Government's emphasis on increasing both land and housing supplies means that property prices will not deviate much from the inflation rate. The superiority of real estate investment therefore diminishes. Under these circumstances, the nature of housing will gradually change from an investment asset to one for physical

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<sup>18</sup> In the latest HOS Phase 19C, a total of 77,028 applications received. The subscription rate was 7.58 times the 10,156 flats put up for sale (<http://www.info.gov.hk/hd/PressRel/00001670.htm>). Compared with that of Phase 18C in January 1997, the subscription rate showed a 45% drop.

<sup>19</sup> The Fund requires both employees and employers to contribute an amount equal to 5% of the employee's earnings. The earnings level subject to the Fund is from \$4,000 to \$20,000 on a



accommodation. Diversification to financial goods like bonds and pension funds will reduce the investment demand of owner-occupied housing.

Fourthly, the previous section has illustrated the fact that there is an increasingly clear demarcation between two forms of owner-occupied housing. While HKSAR government can control its production of public owner-occupied housing production, it cannot force private developers to bring a specified number of flats to the market. The year 1997 has already witnessed a large shortfall in private housing production — developers built about 18,000 private dwellings that was about 20 per cent less than anticipated (*SCMP*, 18 February 1998). In view of recent increases in interest rates and the lack-lustre buying sentiment, the Government cannot have a clear projection on the number of flats developers will be able to produce. Over time, an increasing number of PRH tenants turned home owners will be able to benefit from the appreciation in their units' value. They can sell their units to other PRH tenants two-year later or sell on the open market five years later, having paid a premium proportionate to the original discount. But, shortage in private housing units means that their channel to trade up the housing ladder is blocked. Also, the gap between the prices of owner-occupied housing in the public and private sectors will be further widened if the availability of the latter is diminishing. Such obstruction in trading up weakens the prospect of promoting home ownership to improve people's standard of living.

Finally, the future of owner-occupied housing depends on the economic integration between Hong Kong and China, particularly the southern part of China. In the final executive report of the Territorial Development Strategy, HKSAR government has taken the development of the Pearl River Delta into full consideration. To accommodate the expected 8.1 million population in 2011, the Government will conduct studies to explore the development potential of the northeastern New Territories, northwestern New Territories, Hong Kong Island South and Lamma island so that 95,000 housing units a year will be produced after

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monthly basis. It covers employees of aged from 18 to 64, including self-employed persons. The benefits are fully vested, to be portable and to be paid in a lump sum at the age of 65.

2001. This is an ambitious target. However, the expanded demand of housing may be over-estimated. Already, pockets of residential developments targeted at Hong Kong people have sprung up across the Pearl River Delta. There are now 100,000 Hong Kong people living in Guangdong (Gilley 1997b). Most see these properties as holiday homes, and only a small number of retirees live there to take advantage of the much lower costs of living. Given the economic activities of Hong Kong is gradually shifting to the north, there may be more retirees and managers with business in China move to the other side of the Shenzhen River. Currently, the question of jurisdiction of Hong Kong citizens in China poses barriers in deterring massive migration from HKSAR to China. But in the long run, the economic boundary between Hong Kong and Guangdong will become blurred. Hong Kong will ultimately be integrated into the larger Chinese economy. More people will cross the border to find jobs and then establish their families there. There is also talk about developing 'satellite communities' for Hong Kong people straddling the border as land in HKSAR will ultimately be used up. As a whole, the long term demand of home ownership may not be as high as HKSAR government expects.

## **Conclusion**

The structure of owner-occupied housing provision in Hong Kong is changing. At the bottom end of the housing market, the supply of owner-occupied housing units is dominated by HKSAR government. At the opposite end, to avoid competition with the Government, private developers have shifted their energies in constructing larger and better-quality flats for sale. As home ownership expands and PRH limits to people in real need, Hong Kong, like Australia, Britain and the United States, will change the current dualised housing system in which owner occupation and public renting are dominant tenure alternatives to a mono-tenurial one (Kemeny 1983, p.73), in which owner occupation is the dominant tenure with both private and public renting as residual housing sectors. The major disadvantage of the mono-tenurial housing system is little or no real choice between comparable forms of tenure.



It is clear that Hong Kong's housing, like other sectors, is facing a lot of challenges, such as the ageing of the population, immigration from China, the persistent unemployment rate, depressed earnings for unskilled labour and decreased job security for many middle-income households. Therefore, it is time for HKSAR government to question the sustainability of some of its housing policies. Pushing for higher rates of owner occupancy is questionable given the long-term labour market trends towards short-term and less-secure employment contracts. As such, the housing system is required to adapt the more 'flexible' labour market (MacLennan & Pryne 1996, p.1856). To provide more housing choices to suit the different requirements of families at different stages of the life cycle under an insecure economic environment, there is a need to have a large and efficient private rental sector. In achieving this, housing policies are required to promote private renting as a valuable source of cheap, flexible and popular urban housing. Tax incentives or even direct subsidies are required to encourage private landlords to stay in business. Overseas experiences, like Denmark, France and Germany (Power 1993, p.374) show that a large sector of private rental sector can facilitate employment flexibility and growth. To suit Hong Kong's buoyant economy, the right direction is to maintain the current dualised housing system with a healthy private rental sector.

## CHAPTER EIGHT

### CONCLUSIONS

The major objective of this dissertation has been to provide an introduction to the role of property developers in supplying owner-occupied housing, set within the context of the Hong Kong housing market, its political and socio-economic changes and its housing policy. It has employed Ball's 'Structure of Housing Provision' (SHP) as a means to organise and understand the complexity of housing productions and patterns that we observe in Hong Kong. It has also emphasised the analysis of housing development process and the 'power' of developers on Hong Kong society. In so doing, it may assist the reader in making sense of the complicated interaction among different agents in the housing market.

Throughout the text, emphasis has also been placed on the importance of studying housing provision in its appropriate context, that is, the economic, historical, political and socio-cultural environments that define the external influences on government intervention in the housing development process. It was implemented in such a way that owner-occupied housing could be provided only by private developers. As large amounts of government revenues were extracted by land development, the former colonial government indirectly pushed up the housing prices by restricting the supply of residential land. Consequently, housing became an investment goods as people anticipated that its prices would rise faster than inflation since it was always in shortage. This artificial shortage induced developers to adopt a specific mechanism to acquire land, construct, finance and sell the private housing units. This, in turn, led to the identification of a number of internal rules, resources and ideologies each agent — home buyers, public and private housing developers, financial institutions and the government agencies who regulate the activities of the market — draw upon in deciding what owner-occupied housing goes where and when.



Equally important, these contents are continually changing. The soaring housing prices led to a massive amount of intervention in the direct provision of owner-occupied housing, instead of increased effort to remove bottlenecks and obstacles in the housing development process so as to enhance the ability of the private sector to produce housing. Still, the high housing prices did not resolve, and became a political concern for the government of the Hong Kong Special Administrative Region (HKSAR). In a way, the high housing costs have reduced the competitiveness of Hong Kong economy. To solve the problem, the HKSAR government took a new direction, and has introduced measure to increase land supply.

Yet, the present collapse in real-estate values quickly ripples through the entire financial sector, causing troubles in financial institutions holding a large portfolio in property investment. This, in turn, has forced the HKSAR government changing its initial strategies to push down the sky-rocketing housing prices. In consequence, the changes of the external environment, either politically or economically, have induced fluctuations of housing policies altering both rules and resources used for investment in housing supply and the costs of occupying that housing. Ironically, developers had in the past strongly resisted governmentally imposed restrictions on supply, even though without them it became impossible to maintain high prices. Currently, they are strongly opposing government's efforts in increasing land supply. On the other hand, home buyers had in the past urged government to increase intervention in the market to lower housing prices. Currently, they are pushing government to further intervene the market by sustaining falling prices. Despite the drastic drop of prices, however, most people are still unable to afford buying private housing without government subsidies. Finally, the heavy commitment of government in promoting home ownership to fulfil the rising aspirations of the public has increasingly reinforced the dominance of large developers (both in public and private sectors) in the structure of owner-occupied housing provision. Generally, there is a myriad of housing policies that are complicated, volatile, and at times, contradictory.

The above inconsistencies in housing policy in part reflect the undeniable complexity of the issues involved, and in part they mirror that there is no single solution to solve the housing problems. In fact, we often seem to solve one problem simply by creating others. Clearly, future housing policy depends on how each agent in the structure of owner-occupied housing provision reacts to the new housing policy, how new rules and resources are created to adjust to the changing investment atmosphere in the market and how our neighbours' economies perform. In addition, one must look at the critical effects on housing of a continued economic recession and low inflation, of changing preferences and cultural values, of employment re-distribution, migration shifts and population ageing and of re-alignments in political ideologies (both HKSAR and Mainland China) regarding the degree of government intervention in housing and tightening fiscal constraints on public expenditure.

Each of the earlier chapters has illustrated the nature of housing development industry, as well as the factors affecting property developers made on the method, location and timing of land purchase and housing development. However, detailed strategies developers used in deciding which type of housing is distributed in our society are not mentioned adequately. There is clearly a need for more research.

First, there is considerable merit to conduct an intensive study of specific group(s) of developers over a longer time scale and in a greater depth than was possible in this study. Emphasis should be put to obtain feedback from those who are unwilling to participate in this study. In order to obtain their participation, it is advantageous to penetrate into their network, like working in the property-related business. In a way, being a member of property development industry can easily learn the internal rules that are often deliberately made obscure to an outsider

Second, there is a need to conduct a longitudinal study of developers in the housing development industry. It has already witnessed a new change of the structure of owner-occupied housing provision in Hong Kong. In coping with the



anticipated social, economic, demographic and political transitions in Hong Kong, the structure of housing provision will continue to evolve. It would be interesting to see how developers operate after five years' time when the new form of housing provision proceeds to its more mature stage.

Finally, the study has proved that the concept of SHP is valuable in studying the role of property developers in the provision of owner-occupied housing in Hong Kong. Given the extreme complexity of the interrelationships of agents involved in housing provision, the value of using SHP is obvious. Such an analysis ensures different theories are incorporated to explain the multifarious interactions among agents in producing and transforming the built environment in Hong Kong. As housing studies become more an integration of various disciplines in social sciences, using SHP can provide a holistic view in understanding the behaviour of a particular agent and its outcome in a housing context. It also enriches our understanding of the nature of housing: its sheer enormity and intricacy. Yet, and in tandem with an improved base of housing information and descriptive studies, our existing theoretical frameworks and conceptual designs need to be modified and extended, and in some cases replaced, in the face of the new and different conditions affecting Hong Kong and its housing system, for example, ageing and slow growth, and unemployment problems. Apparently, there is no perfect housing theories for the simple reason that none exists. But, theories must be firmly grounded in the reality we observe around us if their purpose is to devise far more satisfactory systems of housing people and building their homes than currently available.

## POSTSCRIPT

As there are clear signs that HKSAR is plunging into its first recession for years, with negative economic growth imminent in the second quarter of 1998, HKSAR government announced its second rescue package on 22 June 1998 to relieve hardships and revive Hong Kong's economy. The package was designed to address the credit and liquidity crunch, falling property prices, business and domestic costs and declining public confidence.

To stabilise property prices, all land sales by auction or public tender for the remainder of the 1998/99 financial year and private treaty grants for SCHS were suspended (see Table 7.1). Extra \$3.6 billion was allocated for the HSLS so that the number of eligible families to be first-time home buyers was increased from 6,000 to 12,000. Also, the 1998/99 quota for the HPLS would be increased from 4,500 to 10,000. These measures were apparently designed to reduce land supply on the one hand and boost housing demand on the other. However, given that the 85,000 flat production target each year remains unchanged, the measures can stabilise the market but are unlikely to help boost prices. In this sense, the scenarios suggested in Figures 7.1, 7.2 and Table 7.2 are still valid. Nevertheless, the structure of Hong Kong's owner-occupied housing provision and subsequently the behaviour of property developers will undergo a significant change as HKSAR government has adopted a new direction in its housing policy.



## Appendix I

List of individuals consulted in selected individuals interviews.

Ms Chan Chung Ha  
Estate Surveyor  
Housing Department

Mr Benny W.N. Yu  
Sales Manager (Tseung Kwan O)  
Hong Kong Property Services (Agency)  
Ltd.

Mr Lennon Choy  
Department of Building & Real Estate  
Hong Kong Polytechnic University

Dr Rebecca L.H. Chiu  
Centre of Urban Planning &  
Environmental Management  
University of Hong Kong

Mr Chung Si Ping  
Yau Yuen Wan Village  
Hang Hau, Tseung Kwan O

Dr Lawrence W.C. Lai  
Department of Surveying  
University of Hong Kong

Mr Daniel Lau  
Property Development Manager  
Hong Kong Housing Society

Mr Holly M.M. Lau  
Assistant Director, Corporate Relations  
Land Development Corporation

Mr R.A. Logan  
Senior Architect  
Housing Department

Mr Sze Wing Ching  
Manager Director  
Centraline Property Agency Ltd.

Ms Tam Sau Ngor, Vera  
Trade Practices Officer  
Consumer Council

Mr S.Y. Wai  
General Secretary  
The Real Estate Developers Association of  
Hong Kong

Mr Stephen Yip Moon Wah  
Chairman, General Practice Division  
Hong Kong Institute of Surveyors



## **Appendix II**

**Corporate members in the Real Estate Developers Association of Hong Kong as in 1997.**

Name of Companies	Name of person in charge
1 Alfaso Investment Ltd.	Miss Cheung Mi Ling
2 Amoy Properties Ltd.	Mr Yin Shang Shing
3 Asia Standard International Group Limited	Mr Fung, Clement Siu To
4 Asiasec Properties Ltd.	Mr Leung, Jesse
5 Beauty Plaza Ltd.	Mr Lee, Kent Wing Kam
6 Better Chief Ltd.	Mr Ng, Robert
7 Bonna Estates Co., Ltd.	Mr Li, Alfred Hung Kwan
8 Cali Enterprises Ltd.	Hon Tien, James P.C.
9 Camleigh Investment Ltd.	Mr Lee Woon King
10 Cavendish International Holdings Ltd.	Mr Tso Kai Sum
11 Central Development Ltd.	Mr Hui, Charles C.P.
12 Cheer Result Ltd.	Mr Chen Hsi Yu
13 Cheong K Co. Ltd.	-
14 Cheong Sun Investment Ltd.	Ms. Cheng Co Chine
15 Chesterfield Realty Ltd.	Dr. Li Ka Shing
16 Cheuk Nang Properties (Holdings) Ltd.	Mr, Chao, Cecil
17 Cheung Kong (Holdings) Ltd.	Dr. Li Ka Shing
18 Chi Lam Investment Co., Ltd.	Mr Leung, Stewart Chi Kin
19 Chi Pan Co., Ltd.	Mr Yuen, Nelson
20 Chime Corporation Ltd.	Mr Kung Yan Sum
21 China Overseas Land & Investment Ltd.	Mr Sun Wen Jie
22 Chinachem Investment Co., Ltd.	Mr Wang T.H.
23 Chow Tai Fook Jewellery Co., Ltd.	Dr Cheng Yu Tung
24 Chuang's Properties Ltd.	Mr Chuang, Alan Shaw-Swee
25 Chung Shek Enterprises Co., Ltd.	Mr Chang E.M.
26 Chung Yuen Enterprises Co., Ltd.	Mr Chan Him
27 Chyau Fwu Properties Ltd.	Mr Wong, George Kin Wah
28 Couraud Investment Ltd.	-
29 Deland Investment Ltd.	Mr Lau Chi Keung
30 Demig Trading (Far East) Co., Ltd.	-
31 Dynamia Co., Ltd.	Mr Ho, Wilfred S.L.
32 E Man Construction Co., Ltd.	-
33 E Wah Reality Ltd.	Mr Chung Kong Hoi
34 Eastern Union Investment Corp. Ltd.	Mr Ko Kwok Yuen
35 Eden Investment Co., Ltd.	Mr Pang Ying Hong
36 Egeria Investment Ltd.	Mr Yen Ping Sei
37 Evercot Enterprise Co., Ltd.	-
38 Far East Holdings International Ltd.	Mr David Chiu
39 Five Oceans Land Investment Ltd.	Mr Sheung Chi Wing
40 Fordlux Development Ltd.	Mr Ng Chung Hong
41 Friends & U Land Company	-
42 Fu Fai Enterprises Ltd.	Mr Leung Moon Chuen
43 Fu Investment Co., Ltd.	Mr Chan Chak Fu
44 Full Speed Development Ltd.	Mr Yeo Nam Kok
45 Fulton Corporation Ltd.	Mr Fok, Ian
46 Fung Kin Enterprise Co., Ltd.	Mr Pang Yin Hong
47 Gammon Properties Ltd.	Mr Liu, Simon
48 Gold Dragon Development Co., Ltd.	Mr Li Wai Keung
49 Gold Union Land Development Co., Ltd.	-
50 Golden Hill Land Development Co., Ltd.	Mr Wong, David Wai Chi



Name of Companies	Name of person in charge
51 Golden Leaf Investment Ltd.	Miss Fong, Doreen
52 Greenlet Investment Ltd.	-
53 Handsome Construction & Investment Co., Ltd.	Mr Fong, Albert Man Ching
54 Handsome Lift Investment Ltd.	Mr Wong, Henry Gee Hang
55 Hang Hing Construction Co., Ltd.	Mr Ko, Herbert
56 <i>Hang Lung Development Co., Ltd.</i>	<i>Mr Chan, Ronnie</i>
57 Hang Mow Investment Co., Ltd.	-
58 Hang Tak Co., Ltd.	Mr Lee Mee Yung
59 Hanison Construction Co., Ltd.	Mr Wong Sue Toa
60 Harriman Realty Co., Ltd.	Mr Tse, Ray
61 <i>Henderson Investment Ltd.</i>	<i>Mr Li Ning</i>
62 <i>Henderson Land Development Co., Ltd.</i>	<i>Mr Lee King Yue</i>
63 Henry Fok Estate Ltd.	Mr Fok, Henry Y.T.
64 Henry Y T Fok Investment Ltd.	Mr Fok, Henry Y.T.
65 Hin Lee Investment Co., Ltd.	Mr Lee, Thomas T.V.
66 Hip Shing Hong Development Co., Ltd.	Dr Fong, Henry Yun Wah
67 <i>HKR International Ltd.</i>	<i>Mr Cha, Payson Mou Sing</i>
68 Hoi Shun Investment Co., Ltd.	Mr Pun, Stephen
69 Hon Fu Enterprises Ltd.	Mr Fong Fu Wah
70 <i>Hon Kwok Land Investment Co., Ltd.</i>	<i>Mr Fung, Herman Man Hei</i>
71 Hong Kong Island Development Ltd.	Mr Leung, Stewart Chi Kin
72 Hong Kong Resort Co., Ltd.	Mr Marriott, Jeremy C.H.
73 Hongkong & Whampao Dock Co., Ltd.	Mr To, Peter
74 Hooley Estates Ltd.	Mr Yao Ling Sun
75 <i>Hopewell Holdings Ltd.</i>	<i>Mr Yeung, Kevin Ka Yan</i>
76 Hopewell Housing Ltd.	Ms Lee, Edith
77 Hsin Chong Land Ltd.	Mr Lo, Eric Kai Kin
78 Hung Kong Investment Co., Ltd.	Mr Fung Shun Wai
79 <i>Hutchison Properties Ltd.</i>	<i>Mr Tso Kai Sum</i>
80 <i>Hysan Development Co., Ltd.</i>	<i>Dr H.C. Lee</i>
81 I-Feng Company Ltd.	-
82 International Agencies Ltd.	Mr Leung, Stewart Chi Kin
83 International Hung Hsing Holdings Ltd.	Mr Ng, Benjamin P.K.
84 Jade Pine Ltd.	Mr Yam, William
85 Jannerson Ltd.	Mr Kwan, Vincent
86 Join Fortune Development Ltd.	Mr Leung Sing
87 Jumbo Funds Ltd.	Ms Lo Yuk Ying
88 K Wah Properties (Holdings) Ltd.	Mr Alexander Y.W. Lui
89 Kai Ming Investment Co., Ltd.	Mr Kwan, Daniell
90 Kam Mow Enterprises Co., Ltd.	Mr Lau Kam Mow
91 Kee Lee Co., Ltd.	Mr Lee Shau Kee
92 Keng Fong Sin Kee Con & Inv. Co., Ltd.	Mr Lee, Johnny Ngau Chai
93 <i>Kerry Properties Ltd.</i>	<i>Mr Steven Ho</i>
94 Kin Bon Investment Co., Ltd.	Mr Pang Yin Hong
95 Kin Kiu Enterprises Ltd.	Mr Leung, Stewart Chi Kin
96 Kin Yick Liong Co., Ltd.	Mr Lee, Jimmy Yee Liong
97 King Lee Investment Co., Ltd.	Mr Leung, Stewart Chi Kin
98 King's Road Development Co., Ltd.	Dr Li Ka Shing
99 Kiu Kwan Estate Ltd.	Mr Sung Wen Ming
100 Kiu Kwong Investment Corporation Ltd.	Mr Wong Ming

Name of Companies	Name of person in charge
101 Kiu Wing Investment Corporation Ltd.	Mr Leung Kin Fun
102 Ko Wan Co., Ltd.	Mr Leung, Stewart Chi Kin
103 Kotachi Ltd.	Mr Ng, Robert
104 Kowatex Investment Ltd.	-
105 <i>Lai Sun Development Co. Ltd.</i>	<i>Mr Lau, Julius Shu Yan</i>
106 Land Development Corporation	Mr Razack, Abraham
107 Landwide Estate Co., Ltd.	Mrs Cheng, Judy
108 Lee Chow Kee Con & Inv. Co., Ltd.	Mr Lee Chung Keung
109 <i>Lee Hing Investment Co., Ltd.</i>	-
110 Lee On Investment (Holdings) Ltd.	Mr Fong Hin Yeung
111 <i>Lippo Limited</i>	<i>Mr Jonathan M. Foxall</i>
112 Liu Chong Hing Investment Ltd.	Mr Liu Lit Man
113 Lo's Mee Kwong Land Investment Co., Ltd.	-
114 Lon Kie Group Ltd.	Mr Chau Yueh Jen
115 Long Keen Development Co., Ltd.	Mr Eddie Tam
116 Luen Lee Enterprises Ltd.	Mr Pang Yin Hong
117 Luen Sun Investment Co., Ltd.	Ms Cheng Co Chine
118 Lynhall Land Investment Co., Ltd.	-
119 Man Hing Investment Co., Ltd.	-
120 Man Po Investment Co., Ltd.	Mr Cheung On Tak
121 Mandarin Development Co.	-
122 Manhattan China Investment Ltd.	Hon. Tien, James P.C.
123 Mass Transit Railway Corporation	Mr Ho, Thomas H.K.
124 Mee Wah Construction, Land Investment & Mortgage Co., Ltd	-
125 Metro Realty Co., Ltd.	Dr Ho, Stanley
126 Mightypearl Ltd.	Mr Pun, Stephen Siu Ying
127 Millap Ltd.	Mr Chen, William Chien Yuan
128 Moon Yik Co., Ltd.	Mr Kan Tak Kwong
129 Multipurpose Investment Ltd.	Ms Pun Wai Kuen
130 Murdoch Investment Inc.	Mr Tan Geok Soo
131 Nan Fung Development Ltd.	Miss Chen, Vivien
132 National Investment Co., Ltd.	Dr. Fok, Henry Y.T.
133 New Town (NT) Properties Ltd.	Mr Chan Kui Yuen
134 New Town Properties Holding Investment Ltd.	Mr Lo, Clement Chiu Chun
135 <i>New World Development Co., Ltd.</i>	<i>Dr Cheng Yu Tung</i>
136 Newfoundland Housing Ltd.	Mr Loong, Thomas Lik Kiu
137 Newpont Development Co., Ltd.	Mr Ho Sai Tsang
138 Octerworth Enterprises Ltd.	Mr Lee Tech Chee
139 Overseas Associates Ltd.	Mr Liu Hao Tsing
140 <i>Oxford Properties &amp; Finance Co., Ltd.</i>	<i>Mr Lee, James S</i>
141 Pacific Islands Shipbuilding Co., Ltd.	Mr Pang Yin Hong
142 Pentacontinental Land Investment Co., Ltd.	-
143 <i>Peregrine Investments Holdings Ltd.</i>	<i>Mr Cheung, Edwin Hon Kit</i>
144 Po Sun Investment Co., Ltd.	-
145 Po Wah Land Investment Co., Ltd.	Mr Chan Ching Pew
146 Pocaliton Ltd.	Mrs Chu Lee Pao Chung
147 Pofield Real Estate Co., Ltd.	Mr Kwok Ping Sun
148 Pridegate Ltd.	Mr Chan Hung Ying
149 <i>Pudong Development Holdings Ltd.</i>	<i>Mr Tong Cun Lin</i>
150 Real Maker Development Ltd.	Mr Yeung, Albert Pak Hin



Name of Companies	Name of person in charge
151 Rich Century Investment Ltd.	Mr Ng, Robert
152 Rock Dale Investment Co., Ltd.	Mr Pang Yin Hong
153 Royaltelle International Ltd.	Mr Lo, Clement Chiu Chun
154 Ryoden Property Development Co., Ltd.	Mr Hu, Herman
155 Saky Investment Ltd.	Mr Lee, Thomas Kwok Wing
156 San Kei Land Development Co., Ltd.	Mr Choi Koon Shum
157 Seapower Consortium Co., Ltd.	Mr Choi Sai Leung
158 Shang's Investment Co., Ltd.	Mr Shang Chi Ming
159 Shiu Chung Enterprises Co., Ltd.	Mr Cho Siu Chung
160 Shiu Kien Development Co., Ltd.	Mr Wong, William Wing Lun
161 Shu Shun Co., Ltd.	Mr Pang Yin Hong
162 Shui On Properties Ltd.	Mr Lo, Vincent Hong Sui
163 Shun Hop Nien Investment Co., Ltd.	Mr Pang Yin Hong
164 <i>Shun Tak Holdings Ltd.</i>	<i>Mr Chan, Anthony Wai Lun</i>
165 Shung King Development Co., Ltd.	Mr Lee King Yue
166 Sidak Investment Ltd.	Mr Cheung Wai Keung
167 Singapore Trading Co., Ltd.	Mr Lam Chok Fai
168 Siu Fu Co., Ltd.	Mr Ng, Timothy W.K.
169 Sogea Ltd.	Mr Dessaigne Ragul
170 Soundwill Investments Ltd.	Mr Wan Jarm Cheun
171 Stanman Properties Ltd.	Mr Yuen, Nelson Wai Leung
172 Sumitomo Investment Co., (HK) Ltd.	-
173 Sun Cheong Investment & Construction Co.	-
174 Sun Hey Investment Co., Ltd.	Ms Ma, Jennifer
175 Sun Hung Kai Properties Holding Investments Ltd.	Mr Lo, Clement Chiu Chun
176 <i>Sun Hung Kai Properties Ltd.</i>	<i>Mr Kwok, Thomas P.K.</i>
177 Sun King Fung Development Ltd.	-
178 Sun Luen Land Investment Co., Ltd.	-
179 Sunny Enterprises Ltd.	Mr Pun Sun On
180 <i>Swire Properties Ltd.</i>	<i>Mr Kerr, Keith G.</i>
181 <i>Tai Cheung Properties Ltd</i>	<i>Mr Chan, David Pun</i>
182 Tak Hung (Holding) Co., Ltd.	Mr Ho Tim
183 <i>The Great Eagle Co., Ltd.</i>	<i>Mr Mok, Terry</i>
184 The Hong Kong Chiap Hua Mty. Co., (1947) Ltd.	Mr Cheng, Albert S.L.
185 <i>The Hongkong Land Property Co., Ltd.</i>	<i>Mr Percy Weatherall</i>
186 <i>The Kwong Sang Hong International Ltd.</i>	<i>Mr Cheung, Edwin Hon Kit</i>
187 The Sun Co., Ltd.	Mr Lok, Hardy K.C.
188 Timeshare Development Ltd.	Mr Ow Sing Kau
189 Verder & Co., (HK) Ltd.	Mr Wong M.Y.
190 Victoria Amusement Co., Ltd.	Mr Pang Yin Hong
191 Wharf Property Investment Ltd.	Mr Li, Gonzaga Wei-Jen
192 Wheelock Properties Ltd.	Mr Tse, Ray
193 Will Glory Co., Ltd.	Mr Lee Yiu Cheung
194 Wing Hing Shing Co., Ltd.	Mr Pang Yin Hong
195 Wing Kee Co., Ltd.	-
196 Wing Shing Enterprises Ltd.	Mr Pang Yin Hong
197 Wing Wo Land Investment Co., Ltd.	Mr Lee Yiu Chee
198 Wise Investment Co., Ltd.	Mr Wen Chi Hsuan
199 Wong Che Keong Co.	-
200 Y C Cheng & Sons Co., Ltd.	Mr Cheng She On

Name of Companies	Name of person in charge
201 Y W Fong Continuation Ltd.	Mr Fong, David Man Hung
202 Yan Yin Company Ltd.	Mr Lui, Michael Cheung
203 Yau Fook Hong Co., Ltd.	Mr Siu, Peter Yat Nam
204 Yem Brothers Co., Ltd.	Mr Yem Ming
205 Yeung Chi Shing Estates Ltd.	-
206 Ying Ho Co., Ltd.	Mr Ng Shung Mo
207 Ying Kong Enterprises Ltd.	Mr Chong Lap Fu
208 Yu Tai Hing Co., Ltd.	Mr Lo Siu Tong
209 Yuen Fung Investment Co., Ltd.	Dr. Fok, Henry Y.T.
210 Yuen Kee Construction Co., Ltd.	Mr Chang, Ning Ru
211 Yuen Tack Hing Co., Ltd.	Mr Pang Yin Hong
212 Yuet Cheong Co., Ltd.	Mr Pang Yin Hong

*italics: Public company*



### **Appendix III**

**Details of HOS and PSPS projects, 1978-97.**

Phase	Application period	Projects	No. of blocks	No. of flats
1	February 78	Shun Chi Court, East Kowloon	6	1,539
		Chun Man Court, Ho Man Tin	12	1,800
		Yue Fai Court, Phase I, Aberdeen	5	1,100
		Sui Wo Court, Phase I, Sha Tin	6	2,334
		Yuet Lai Court, Lai King	4	704
		Shan Tsui Court, Chai Wan	4	896
	November 79	<i>Yau Tong Centre, Yau Tong</i>	9	506
		<i>Chi Lok Fa Yuen, Tuen Mun</i>	8	1,000
Sub-total				9,879
2A	March 80	Yue Shing Court, Sha Tin	4	530
		Sui Wo Court, Phase II, Sha Tin	3	1,167
		Yue Fai Court, Phase II, Aberdeen	1	220
2B	August 80	Tsui Yiu Court, Kwai Chung	1	292
		Ching Lai Court, Kwai Chung	7	970
		Ting Nga Court, Tai Po	3	395
Sub-total				3,574
3A	March 81	Siu On Court, Tuen Mun	10	1,311
		Yee Tsui Court, Chai Wan	3	600
		Hong Tin Court, Lam Tin	3	792
		Yee Kok Court, Phase I, Sham Shui Po	4	396
	December 81	<i>Walton Estate, Chai Wan</i>	4	760
3B	February 82	On Kay Court, Phase I, Ngau Tau Kok	2	464
		Siu Hong Court, Phase I, Tuen Mun	5	1,084
Sub-total				5,407
4A	June 82	Siu Hong Court, Phase II, Tuen Mun	4	960
		King Shan Court, Phase I, Hammer Hill	2	528
		Yue Tin Court, Shatin	7	1,704
		Kai Tai Court, East Kowloon	4	624
		Yuk Po Court, Shek Wu Hui	8	1,248
4B	January 83	King Shan Court, Phase II, Hammer Hill	4	1,056
		Wang Fuk Court, Tai Po	8	1,984
		Yan Tsui Court, Chai Wan	2	304
	March 83	Melody Garden, Tuen Mun (Middle Income Housing Scheme)	10	2,240
Sub-total				10,648
5A	July 83	Siu Shan Court, Tuen Mun	12	1,872
		Yee Kok Court, Phase II, Sham Shui Po	3	298
		Lok Nga Court, Ngau Tau Kok	6	1,331
		King Tin Court, Sha Tin	6	1,424
5B	February 84	Siu Hong Court, Phase III, Tuen Mun	5	1,200
		On Kay Court, Phase II, Ngau Tau Kok	2	456
		Cheung Wo Court, Kwun Tong	6	1,584
Sub-total				8,165
6A	June 84	Siu Hong Court, Phase IV, Tuen Mun	6	1,432
		Choi Po Court, Phase I, Shek Wu Hui	3	1,584
		May Shing Court, Sha Tin	3	2,192
		<i>Tai Po Plaza, Tai Po</i>	5	1,408
6B	October 84	<i>Richland Gardens, Kowloon Bay</i>	22	5,904
Sub-total				12,520



Phase	Application period	Projects	No. of blocks	No. of flats
7A	January 85	Choi Po Court, Phase II, Shek Wu Hui	1	528
		Fung Shing Court, Sha Tin	3	2,448
		Ching Shing Court, Tsing Yi	1	800
7B	March 85	Prime View Garden, Tuen Mun	5	1,520
		Holford Gardens, Sha Tin	3	800
		Sun Lai Garden, Ngau Chi Wan	3	600
		Greenwood Terrace, Chai Wan	7	2,100
7C	July 85	Neptune Terrace, Chai Wan	3	978
		Siu Hei Court, Phase I, Tuen Mun	2	1,120
		Ming Nga Court, Tai Po	3	1,680
Sub-total				12,574
8A	November 85	Sun Hing Garden, Tai Po	5	1,460
		Ching Wah Court, Phase I, Tsing Yi	2	1,120
		Siu Hei Court, Phase II, Tuen Mun	3	1,680
		Tin Ma Court, Central Kowloon	5	2,800
8B	May 86	Kornhill, Quarry Bay	10	2,180
		Lung Poon Court, Phase I, Diamond Hill	6	3,340
		Po Lai Court, Sham Shui Po	3	378
8C	September 86	Chevalier Garden, Phase I, Ma On Shan	10	2,010
		Hong Wah Court, Lam Tin	3	1,680
Sub-total				16,648
9A	February 87	Ching Wah Court, Phase II, Tsing Yi	4	1,340
		Ka Tin Court, Sha Tin	6	1,680
		Kam On Court, Ma On Shan	3	1,050
9B	June 87	Chevalier Garden, Phase II, Ma On Shan	7	1,932
		Ching Tai Court, Tsing Yi	7	2,180
9C	November 87	King Ming Court, Tseung Kwan O	3	1,050
		Kam Hay Court, Ma On Shan	3	1,050
		Yue On Court, Ap Lei Chau	7	1,960
Sub-total				12,242
10A	April 88	Hong Shing Garden, Tseung Kwan O	5	1,850
		Ying Ming Court, Phase I, Tseung Kwan O	3	1,050
		Affluence Garden, Phase I, Tuen Mun	3	1,332
		Po Nga Court, Phase I, Tai Po	1	816
10B	August 88	Tsui Chuk Garden, Phase I, Chuk Yuen	8	2,060
		Affluence Garden, Phase II, Tuen Mun	2	876
		Grandway Garden, Sha Tin	3	864
		Kwong Lam Court, Phase I, Sha Tin	1	610
		Ying Ming Court, Phase II, Tseung Kwan O	2	700
10C	December 88	Tsui Chuk Garden, Phase II, Chuk Yuen	4	1,030
		San Wai Court, Phase I, Tuen Mun	4	1,400
		Po Nga Court, Phase II, Tai Po	2	1,627
		Kwong Lam Court, Phase II, Sha Tin	2	1,222
Sub-total				15,437
11A	April 89	Carado Garden, Sha Tin	6	1,988
		Tsui Lai Garden, Phase I, Sheung Shui	3	1,006
		Hiu Tsui Court, Chai Wan	2	660
		King Lai Court, Ngau Chi Wan	2	700
		Ching Nga Court, Tsing Yi	1	814
		San Wai Court, Phase II, Tuen Mun	2	700

Phase	Application period	Projects	No. of blocks	No. of flats
11B	August 89	<i>Fu Ning Garden, Phase I, Tseung Kwan O</i>	3	1,220
		<i>Tsui Lai Garden, Phase II, Sheung Shui</i>	3	1,006
		Yan Ming Court, Tseung Kwan O	5	1,750
		Hong Lam Court, Sha Tin	3	1,050
		On Shing Court, Sheung Shui	1	611
11C	December 89	<i>Fu Ning Garden, Phase II, Tseung Kwan O</i>	3	1,230
		Ho Ming Court, Tseung Kwan O	1	814
		Chung Nga Court, Tai Po	3	2,036
		Siu Kwai Court, Tuen Mun	2	1,425
		Fu Keung Court, Phase I, Wang Tau Hom	1	130
		Chun Wah Court, Ngau Tau Kok	1	232
Sub-total				17,372
12A	April 90	<i>On Ning Garden, Tseung Kwan O</i>	6	2,300
		<i>Elegance Garden, Tai Po</i>	4	1,060
		King Tsui Court, Chai Wan	1	607
		Hong Ying Court, Lam Tin	1	814
		Kam Ying Court, Phase I, Ma On Shan	3	1,050
12B	August 90	<i>Tsui Chuk Garden, Phase III, Chuk Yuen</i>	2	434
		Kam Ying Court, Phase II, Ma On Shan	7	2,450
		Yat Nga Court, Tai Po	2	1,224
		Yin Lai Court, Lai King	2	560
		Pang Ching Court, Chuk Yuen	1	816
12C	December 90	<i>Fu Fai Garden, Ma On Shan</i>	2	520
		<i>Serene Garden, Tsing Yi</i>	3	840
		<i>Ka Lung Court, Kellet Bay</i>	4	1,402
		Siu Pong Court, Tuen Mun	1	612
		<i>Siu Lung Court, Tuen Mun</i>	1	612
		Siu Hin Court, Tuen Mun	2	1,224
Sub-total				16,525
13A	April 91	<i>Tsui Ning Garden, Phase I, Tuen Mun</i>	4	1,400
		<i>Fok On Garden, Ma On Shan</i>	2	600
		<i>Sunningdale Garden, Sheung Shui</i>	4	830
		Fu Keung Court, Phase II, Wang Tau Hom	2	460
		Tin Wang Court, Chuk Yuen	3	630
		Lung Poon Court, Phase II, Diamond Hill	1	340
		Yee Nga Court, Tai Po	5	1,750
13B	August 91	<i>Tsui Ning Garden, Phase I, Tuen Mun</i>	2	700
		Hong Pak Court, Lam Tin	7	2,410
		Fung Chuen Court, Diamond Hill	1	612
		Kam Lung Court, Phase I, Ma On Shan	3	1,050
		King Nga Court, Tai Po	2	700
		Siu Lun Court, Phase I, Tuen Mun	2	700
13C	December 91	<i>Fullview Garden, Phase I, Chai Wan</i>	6	1,740
		Hong Nga Court, Phase I, Lam Tin	2	1,216
		Yee Ching Court, Sham Shui Po	3	672
		Tin Yau Court, Phase I, Tin Shui Wai	1	608
		Chung Ming Court, Phase I, Tseung Kwan O	2	700
		Siu Lun Court, Phase II, Tuen Mun	2	700
		Tak Nga Court, Tai Po	1	816
Sub-total				18,634



Phase	Application period	Projects	No. of blocks	No. of flats
14A	April 92	Fullview Garden, Phase II, Chai Wan	5	1,500
		Saddle Ridge Garden, Phase I, Ma On Shan	6	2,100
		Tin Yau Court, Phase II, Tin Shui Wai	2	1,216
		Hong Nga Court, Phase II, Lam Tin	1	608
		Chung Ming Court, Phase II, Tseung Kwan O	3	1,050
14B	August 92	Saddle Ridge Garden, Phase II, Ma On Shan	6	2,100
		Po Hei Court, Sham Shui Po	2	390
		Kai Tsui Court, Chai Wan	2	1,216
		Siu Lun Court, Phase III, Tuen Mun	4	1,400
		Kam Lung Court, Phase II, Ma On Shan	1	350
		Yan Shing Court, Phase I, Fanling	4	1,400
14C	December 92	Yuet Wu Villa, Phase I, Tuen Mun	7	1,950
		Wing Fok Centre, Fanling	6	1,680
		Fu Keung Court, Phase III, Wang Tau Hom	3	780
		Kwai Hong Court, Kwai Chung	2	701
		Kwai Yin Court, Tai Wo Hau	2	700
		Yan Shing Court, Phase II, Fanling	3	1,050
		Tin Oi Court, Phase I, Tin Shui Wai	1	608
14D	January 93	Yu Ming Court, Phase I, Tseung Kwan O	1	608
		Tin Oi Court, Phase II, Tin Shui Wai	1	608
Sub-total			22,015	
15A	April 93	Yuet Wu Villa, Phase II, Tuen Mun	8	1,940
		Lung Yan Court, Stanley	2	360
		Tsz On Court, Phase I, Tsz Wan Shan	1	608
		Ko Chun Court, Phase I, Yau Tong	3	960
		Yu Ming Court, Phase II, Tseung Kwan O	1	608
		Ka Shing Court, Phase I, Fanling	2	1,216
15B	August 93	Tung Chun Court, Shau Kei Wan	2	1,216
		Ko Chun Court, Phase II, Yau Tong	2	656
		Ka Shing Court, Phase II, Fanling	2	1,216
		Siu Lun Court, Phase IV, Tuen Mun	4	1,400
15C	December 93	South Wave Court, Aberdeen	3	1,040
		Cheerful Garden, Phase I, Chai Wan	3	1,080
		Po Pui Court, Kwun Tong	5	1,750
		King Shing Court, Phase I, Fanling	1	608
Sub-total			14,658	
16A	April 94	Cheerful Garden, Phase I, Chai Wan	2	790
		Lok Hin Terrace, Chai Wan	5	1,550
		Kwai Chun Court, Kwai Chung	3	1,050
		King Shing Court, Phase II, Fanling	2	1,216
16B	September 94	Hiu Lai Court, Phase I, Sau Mau Ping	4	2,432
		Tung Hei Court, Phase I, Shau Kei Wan	4	1,216
		Mei Chung Court, Sha Tin	6	1,940
		Yuk Ming Court, Tseung Kwan O	3	1,824
		Peng Lai Court, Ping Chau	1	148
		King Shing Court, Phase III, Fanling	1	608
Sub-total			12,774	
17A	April 95	Kam Fung Court, Phase I, Ma On Shan	5	3,040
		Tsz Oi Court, Phase I, Tsz Wan Shan	2	700
		Tung Hei Court, Phase II, Shau Kei Wan	2	1,216
		Hiu Lai Court, Phase II, Sau Mau Ping	3	1,824
		Wing Fai Centre, Fanling	4	1,350

Phase	Application period	Projects	No. of blocks	No. of flats
17B	November 95	Hin Ming Court, Tseung Kwan O	1	759
		Tsz Oi Court, Phase II, Tsz Wan Shan	4	1,400
		Tsz On Court, Phase II, Tsz Wan Shan	1	364
		Kam Fung Court, Phase II, Ma On Shan	1	608
		Hiu Lai Court, Phase III, Sau Mau Ping	1	608
		<i>Harmony Garden, Phase I, Chai Wan</i>	3	920
<b>Sub-total</b>				<b>12,789</b>
18A	April 96	Choi Fung Court, Ngau Chi Wan	1	608
		Fung Lai Court, Diamond Hill	2	690
		Hang Tsui Court, Chai Wan	2	674
		Tung Lam Court, Shau Kei Wan	1	697
		<i>Harmony Garden, Phase II, Chai Wan</i>	2	1,420
18B	August 96	Hung Fuk Court, Tin Wan	2	700
		Ka Keung Court, Phase I, Wang Tau Hom	1	240
		Kwong Ming Court, Phase I, Tseung Kwan O	6	3,648
18C	January 97	Tung Yan Court, Shau Kei Wan	2	1,050
		Tin Lai Court, Tin Shui Wai	1	756
		Kwong Ming Court, Phase II, Tseung Kwan O	1	608
		Yu Tung Court, Tung Chung	5	2,640
<b>Sub-total</b>				<b>13,731</b>
19A	June 97	Yuet Chui Court, Chai Wan	1	354
		Yi Fung Court, Kwai Chung	2	700
		Tong Ming Court, Tseung Kwan O	3	1,920
		<i>Charming Garden, Phase I, Mong Kok</i>	12	2,648
		<i>Beverly Garden, Phase I, Tseung Kwan O</i>	3	1,170
		<i>Lung Mun Oasis, Tuen Mun</i>	16	3,800
19B	October 97	Wo Ming Court, Phase I, Tseung Kwan O	2	1,280
		Tin Shing Court, Phase I, Tin Shui Wai	3	1,920
		<i>Charming Garden, Phase II, Mong Kok</i>	6	1,260
		<i>Beverly Garden, Phase II, Tseung Kwan O</i>	7	2,796
		<i>Fu Hong Garden, Tuen Mun</i>	12	3,026
19C	April 98	Tung Shing Court, Shau Kei Wan	1	370
		Hong Shui Court, Lam Tin	1	350
		Kam Tai Court, Ma On Shan	12	3,440
		Wo Ming Court, Phase II, Tseung Kwan O	2	360
		Cheong Shing Court, Fanling	4	1,280
		Po Ming Court, Tseung Kwan O	2	1,476
		Tin Shing Court, Phase II, Tin Shui Wai	9	2,880
<b>Sub-total</b>				<b>31,030</b>
<b>TOTAL</b>				<b>266,622</b>

*Italics:* PSPS

Source: HKHA.



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